United States Court of Appeals

for the Second Circuit

EXHIBITS

76-7207

United States Court of Appeals

For the Second Circuit

Docket No. 76-7207

PRUDENTIAL OIL CORPORATION,

Plaintiff-Appellee,

vs.

PHILLIPS PETROLEUM COMPANY,

Defendant-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

(67 Civ. 3748 (C.L.B.))

EXHIBITS FOR JOINT APPENDIX

Volume III — E628 - E957

SULLIVAN & CROMWELL
Attorneys for Defendant-Appellant
48 Wall Street,
New York, N. Y. 10005
(212) 952-8100

GOLD, FARRELL & MARKS
Attorneys for Plaintiff-Appellee
595 Madison Avenue
New York, N. Y. 10022
(212) 935-9200

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AFTERNOON SESSION E 628 1:45 pm

CHAIRMAN MOORE: The hearing will resume.

We will hear from Mr. Wright of Standard Oil of New Jersey.

STATEMENT OF M. A. WRIGHT

STANDARD OIL COMPANY (N.J.)

MR. WRIGHT: Mr. Administrator, my name is M. A. Wright. I am a Director and Executive Vice President of the Standard Oil Company of New Jersey with offices at 30 Rockefeller Plaza, New York, and I am appearing on behalf of the Jersey company today to give our views on the current reappraisal of the oil imports program as it relates to Puerto Rico.

Recent proposals involving higher imports of oil into Puerto have emphasized the potential contribution which a petrochemical complex could make to the economic development of that area. Now, we want to make it clear that we are in no way opposed to economic development in Puerto Rico. On the contrary, we support it.

However, the consequences of the recent proposals reach beyond such development since they carry with them important implications for the administration of the United States oil import control program. It is on the latter grounds that we question their wisdom.

It would appear that the present hearing has stemmed from several specific proposals which would have the effect of

increasing the level of oil imports both into Puerto Rico and into the Continental United States. In particular the Phillips Petroleum Company has petitioned for an import allocation of 50,000 barrels a day of unfinished oils into Puerto Rico. We understand that roughly one-half of this volume would be made into petrochemicals and the other half into motor fuel which would be available for importation free of quota into the Continental United States.

Under the present regulations quotas to Puerto Rican importers are geared to supply of local demand plus exports to areas other than the United States. The relevant section of the Presidential Proclamation of March 10, 1959, states as follows, and I quote:

> "The maximum level of imports of crude oil, unfinished oils, and finished products into Puerto Rico shall be approximately the level of imports into Puerto Rico during all or part of the calendar year 1958, as determined by the Secretary of the Interior to be consonant with the purposes of this proclamation, or such lower or higher levels as the Secretary may subsequently determine are required to meet increases or decreases in local demand in Puerto Rico or demand for export to foreign areas."

By making available substantial new volumes of motor fuel for movement to the U.S. from Puerto Rico, the Phillips

proposal goes beyond the limitations clearly laid down in the Proclamation. And to facilitate this it appears that it would be necessary to have a new proclamation.

It is further our understanding that the volume of motor fuel made available by this proposal would more than double the current exports of this product from Puerto Rico into the Continental United States. Although not stated as such, this proposal must, therefore, be recognized as a request to increase the total volume of foreign oils moving into the U.S. market, with the increase going to just one company. It can only be interpreted this way because otherwise the objectives of the Phillips proposal could be accomplished through the utilization of the existing Foreign Trade Zone in Puerto Rico. The latter course of action would obviate the necessity for this unusual petition for an added import quota.

However, if after weighing all the factors involved, the OIA deems it advisable to increase the level of oil imports moving into the United States, we think it preferable to achieve this result through an overall increase in the level of allowed imports with the allocation favoring no particular company. This would avoid the distortions and inequities which must inevitably accompany piecemeal modification of the present regulations.

On the other hand, should the OIA see fit to view

favorably the Phillips proposal, an outcome which we believe beyond the intent of the present Proclamation and Regulations, then we believe that fairness requires that companies which compete with Phillips in the chemical and motor fuel markets be accorded similar treatment. Petitions to this end must be expected in the future. Clearly, a key factor in the economics of such proposals is the ability to market any associated motor fuel which may be produced. Such a significant change in the imports program as is implied in the Phillips proposal could, therefore, be a determining factor in the decision to invest or not to invest in Puerto Rico.

For these reasons it is important that serious consideration be given to a clear and equitable policy on Puerto Rican imports, so that all companies may proceed with their investment planning in Puerto Rico on a non-discriminatory basis.

CHAIRMAN MOORE: Thank you very much, Mr. Wright.

Does anyone have any questions from the floor. If you will hold your hands up.

(No response)

CHAIRMAN MOORE: I have no questions, Mr. Wright, thank you very much.

For those of you who came in late, I would inform you that we have taken somewhat of a poll and it appears to me that we may be able to finish tonight. There being no particular

objection we are going to try to run right on through to 6:30 or so and try to finish this up tonight.

We will next hear from the Tropical Gas Company of Miami, Florida, Fred Billups.

STATEMENT OF FRED H. BILLUPS,

PRESIDENT TROPICAL GAS COMPANY, INC.

MR. BILLUPS: Mr. Chairman, gentlemen: My name is Fred H. Billups, and I am and have been president of Tropical Gas Company, Inc., and its wholly owned subsidiary Tropigas Inc. of Florida (formerly Southeastern Natural Gas Corporation) with offices in Miami, since the organization of these two companies. Tropical Gas Company, Inc. was formed the latter part of 1954, and Tropigas Inc. of Florida (formerly Southeastern Natural Gas Corporation) was acquired the latter part of 1958. I became president of Tropical Gas on October 1, 1954. Before that time I was connected with Standard Oil Company of New Jersey for 26 years.

While with Standard Oil Company I was responsible in various executive capacities throughout its domestic and foreign operations. When associated with that company my experience was particularly related to Jersey's marketing operations in Europe, North Africa, the Near East, and in North and South American. During 1951 and 1952 I was engaged in the merging of six Standard Oil Company subsidiaries into one company, Essosa, with headquarters in Havana, Cuba and including Esso

Standard Oil Company (Puerto Rico). I served as president and chief executive officer of Essosa until my resignation when I became president of Tropical Gas Company, Inc. My history and experience in the oil business, which involves not only oil products and the general petroleum business, but also gases including liquefied petroleum gas (LPG), covers a period of over thirty-five years, twenty-six of which, as previously mentioned were with Standard Oil Company (NJ). There is no connection, direct or indirect, between Standard Oil Company (NJ) or any of its subsidiaries and Tropical or Tropigas.

In response to the announcement of this Public Hearing, dated June 25, 1964, I would like to present to you today a simple and brief digest of the primary factors relating to the impact of mandatory import controls on propane in Puerto Rico as related to Tropical, and my testimony will involve the following major premises:

1. The original intent of Presidential Proclamation No. 3279, as amended, providing mandatory controls, its implementation, and as related to import controls on propane in Puerto Rico.

2. The supply policy of Tropical since its formation and the impact of oil import restrictions in Puerto Rico as related to the operations of Tropical.

3. The ready availability of propane gas specialized type tankers, and as related to maintaining emergency supplies

to Puerto Rico.

Premise No. 1: The Voluntary Oil Import Program which when originally initiated the latter part of 1957 involved crude oil and was not applicable to Puerto Rico. The Presidential Proclamation No. 3279, as amended, covering Mandatory Controls, was prompted, according to a press release, from the White House on March 10, 1959, because of some flaw companies abusing the voluntary program and was stated to be in the interests of National security. The mandatory program included crude oil and its principal derivatives.

After the adoption of the Mandatory Controls the fact was ascertained by us that the President's Special Committee to Investigate Crude Oil Imports considered maximum quantities of imported petroleum products as they might constitute a threat to the voluntary program, and in a report to the President on June 4, 1958, "concluded that the current level of commercial imports of asphalt, distillate fuel and other miscellaneous petroleum products, do not constitute a threat to the voluntary program and recommends that no action be taken at this time with respect to such imports."

It is also important that the same committee report reached the same conclusion and made the same recommendation that no action be taken with reference to imports of residual fuel oil.

The Presidential Proclamation as it took its final

form went beyond these recommendations. I have a statement in my records from the Assistant Oil Administrator at the time Captain Carson was Oil Administrator, which supports the casual and unresearched manner in which products of little importance were included, specifically propane, which was not even included under the voluntary program.

The record shows that the Special Committee studying the problem never intended to include propane in the Mandatory Oil Import Program, and even as late as April 8, 1963, Mr. Myer Feldman, deputy special counsel to President Kennedy, in his interview with Clyde LaMotte, Washington editor for the Oil & Gas Journal conceded as follows:

"Feldman concedes that the bulk of the evidence in the recent recid study made by the office of Emergency Planning indicated that no program was really justifiable on a national security basis."

If there was no need for controls on any volume products, the question becomes more ridiculous than academic as to why there are controls on a product such as propane representing less than 1/4 of 1 percent of the yield of a barrel of crude. Certainly propane is not a principal derivative of crude oil. The background and history of the Voluntary and Mandatory Programs is included in Appendix II of Hearings before Subcommittee No. 4 of the Select Committee on Small Business, House of Representatives, 87th Congress, First

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Session, Pursuant to H. Res. 46 commencing at page 903; and such appendix is hereby incorporated by reference. One copy is supplied for the record.

Premise No. 2: Tropical has marketed propane in the Puerto Rican market since the formation of the Company, July 12, 1954, at which time the physical properties were acquired from Esso Standard Oil S.A. Tropical initially imported such quantities as it marketed either by cylinders from Texas or by chartered tanker from Aruba. There was no indigenous refinery sources for propane in Puerto Rico available at that time.

The Company in 1955 entered into a five year program requiring heavy investments, including the building of tankers, entering into a long term contract with a Venezuelan supplier, and other related investments for the purpose of assuring a continued flow of propane to its Central American, Caribbean and other markets without interruption to the people of the respective islands and countries. This policy of providing a continuity of product included Puerto Rico, and had it not been for Tropical's tankers meeting the many emergencies, at considerable expense, that have occurred in Puerto Rico in the meantime because of the refinery shutdowns after being built and on stream, the public would have been without product.

When indigenous refinery propane did become more reliably available in May 1958, Tropical secured product from that source, rather than import, except for the many emergencies

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that made imports necessary to meet the requirements of the public as mentioned.

Because of certain quality specifications Tropical had with one large customer under a long term arrangement, a small import quota from Venezuela was granted in order that we might blend the import product with the indigenous refinery propane available and try to approach the quality specified by our customer and our contractual responsibilities.

In the emergencies when refinery product has become unavailable in Puerto Rico because of refinery breakdowns or other reasons, the Oil Import Administration has been most helpful in quickly granting an emergency import quota for such estimated periods of time as required.

With the exception of the above, because of Import Controls, Tropical of necessity has had to purchase its propane requirements from its Puerto Rican refinery source, regardless of quality or price.

The facts as to the comparative qualities of propane from the Tropical's Venezuelan supply source and its Puerto Rican supply source are fully documented with the Oil Import Administration, and reflect clearly the superior quality of the imported propane from Venezuelan field sources, as compared to its available indigenous refinery sources.

As we all know quality and quantity have to be considered together in the refinery manufacture of propane. The

more quantity is stretched to meet demands, the poorer the quality. There is an increased cost to a refinery in producing maximum quality propane, and also as related to reduced sales. The requirements of Tropical were such that the quantity was stretched, and Tropical had no alternative but to secure such product as available with only a limited import quota.

On December 13, 1962, Tropical requested the Oil Import Administration to favorably consider its application for an increase in its existing import quota into Puerto Rico by 400 barrels a day of Venezuelan propane of such superior quality as is not available from Puerto Rican refinery sources.

This product was for specialized use as documented in detail in the report supporting Tropical's application. The plus volume would in no way take a barrel away from indigenous refinery sources in Puerto Rico, but would provide an additional quality propane of a type for which there is a demand in the Puerto Rican market having a nil content of propylene among other desired qualities, and which is only available from a field gas source. Propylene content in propane is not a product of native field gas but one of cracking processes used at petroleum refineries.

With the exception of the existing small import quota mentioned and the increase requested it is our intent to continue using the Puerto Rican refinery source on the remainder of our business, as at present, where the specifications

are less rigid and where refinery production lends itself to an improvement in specifications.

Although not conclusive, the Oil Import Administration appeared troubled over the fact that the granting of our request might either create a gasoline surplus to that extent on the Island, that such an amount of gasoline would have to be backed up into the U.S. East Coast, or that the refinery quota might have to be reduced to avoid this gasoline surplus.

In order to supply all possible facts related to this situation the following supplemental figures were submitted regarding the growth factor of the Puerto Rican gasoline market:

Gasoline, 1962, 5,080,000 barrels;

'63, 5,550,000; growth rate 8.4 percent; growth rate in barrels per day, 1155;

1964, 5,972,000, growth rate 7.3; barrels a day, 1119;

1964, 6,397,000, 7.2 growth rate, 1172 barrels per day;

1966, 6,826,000, growth rate 7.0; 1184 barrels per day.

Furthermore, before filing its official application, Tropical went a step further in presenting its case to the Oil Import Administration by assuring the Administration the existence of signed supply contracts with its customers, which

are in the Tropical Coral Gables files, and breaking down the 400 barrels a day request to its immediate demands and the additional amount required to ultimately fulfill its contractual requirements.

This breakdown represented an immediate requirement of 134 barrels a day and at a later date 251 barrels a day, totalling specifically 385 barrels a day, slightly under the initial 400 barrels a day discussed with the Oil Import Administration.

The impact of Tropical's request at this time for an increased quota of 134 barrels a day upon a 6 million barrel gasoline market with a growth rate ranging from 7 percent to over 8 percent would be insignificant. Moreover, when the implementation of mandatory oil imports establishes a monopoly for the few large oil companies, and precludes other small companies to their right of participation in a market, the free enterprise system is in jeopardy.

I would like to add that Tropical discussed its plans and reasons for an increased import quota with the Economic Development Administration in Puerto Rico. After an exploration of the matter on their part, we are informed they advised the Oil Import Administration that there was an effective and unsatisfied demand in Puerto Rico for propane for the purpose intended, but that they could not judge the extent of the unsatisfied demand, and in principle supported Tropical's request.

There are facts included in this testimony with which the Oil Import Administration and the Department of Interior may not have been fully aware of when they increased Tropical's quota effective July 1, 1964 by 62 barrels per day rather than by 134 barrels as requested. I am not mindful of the accurate facts as to the reason for the reduction, but my understanding is to the effect that a new refinery to be built in Puerto Rico and completed within the next two years will import domestic crude and will probably be able to meet Tropical's specification demands for the specific type propane requested.

The Oil Import Administration desired that Tropical furnish supporting facts as to the existence of a market for this product and was fully aware of the type of information to be presented. My question at this point is how can Tropical meet its obligations to supply the 134 barrels a day requested. This will be followed by requesting reconsideration in an appropriate procedure.

Premise No. 2: The fact was mentioned previously in this testimony that it was not until May 1958 before our Puerto Rican refinery supply source had a more reliable availability of propane, after which Tropical utilized its tankers more in the other 18 geographic areas in which it operates.

Since that time there have been many emergency

interruptions in the continuity of supply in Puerto Rico, but Tropical has been able to meet such crises through tanker importation, even at abnormal and excessive costs.

Two additional factors have been added to the problem of continuity of supply, one Tropical's increasingly larger requirements, and two, import controls.

It is most important today not only for Tropical, but in the interest of the overall LP Gas industry, to have supplemental tanker import sources available, in the vent that no refinery source is available in Puerto Rico as has been the situation even as late as the year 1963.

To mention a few such crises where imports became essential to protect the public, I refer to those in April, June and October, all in 1963.

The Oil Import Administration functioned quickly to provide supplemental temporary quotas to Tropical, but the problem was to make its own tankers or outside propane tankers available in time to utilize the import authorization and meet these shortage problems.

Where a continuity in the flow of propane is not maintained into an area such as Puerto Rico because of oil import restrictions, it is very difficult to provide standby tanker availability. Increased adequate import quotas would assist in positioning such tankers on a more scheduled slating, and enable a company such as Tropical to more effectively

meet the shortage crises.

It should be kept in mind that propane tankers are highly specialized to carry the product under pressure and in a liquid state. Their work is so specialized in given areas of the world that their availability is limited in contrast to the normal petroleum tanker.

The crisis of October 1963 is typical of the problem. Tropical fortunately had a tanker with part cargo aboard en route to the Dominican Republic and was able to divert the tanker to Puerto Rico to help relieve the shortage.

In addition, Tropical was able at the time to secure the only other tanker available, a converted T-2 with a carrying capacity over twice the size of the emergency import quota requested, but with corresponding substantially excessive costs. Regardless of cost, the crisis was met, but only because the larger tanker at that time happened to be available and could be moved into position without too much delay.

Tropical is fully mindful that the tanker situation as presented under this premise may not be considered within itself, grounds for securing an increase in allocation, however, the practical aspects are so important to the best interests of the people of Puerto Rico, that the relationship to supply and import controls cannot be divorced.

Summary:

Premise No. 1:

1. Puerto Rico was not included in the Voluntary Oil Import Program.

2. Propane was not included under the Voluntary Oil Import Program in the United States.

3. Propane was not intended to be included under the Mandatory Program as recommended by the President's Special Committee, and representing less than 1/4 of 1 percent in the yield of a barrel of crude was not regarded as a principal derivative or a threat to the Voluntary Program (under which program it was not even included).

4. Tropical was supplying Puerto Rico requirements before the refinery sources were built, and it has a very heavy investment in supplying the country.

Premise No. 2:

1. The refinery product available in Puerto Rico is not equal in quality to Tropical's available supply in Venezuela.

2. Tropical is required to take propane, regardless of quality or price, from refinery sources in Puerto Rico because of import controls, with the exception of a small import quota necessary to improve local quality by blending and try to meet required specifications of one large account.

3. Tropical's increased propane requirements from its indigenous refinery source has been met more on a quantitative than qualitative basis.

4. Tropical's application for an increased quota of 134 barrels a day would in no way take away a barrel of product from indigenous refinery propane sources in Puerto Rico.

5. This 134 barrels per day quota would contribute to meeting an existing unsatisfied market in Puerto Rico, as supported in principle by the Economic Development Administration, for a specific quality propane not available locally. This would not displace any other petroleum product in which there would be any practical adverse impact upon import controls, including a gasoline market of over 6 million barrels, which is growing at the rate of 7 percent to over 8 percent annually.

6. Tropical has provided adequate proof regarding the market demand with which the Oil Import Administration is familiar. The 62 barrels per day granted will not meet the obvious market requirements and it is the intention of Tropical to request the Oil Import Administration to grant the additional volume representing the difference between 62 barrels per day and 134 barrels per day through appropriate channels.

Premise No. 3:

1. An increase in Tropical's import quota would assist in the slating of tankers to keep them more in position in event of refinery shutdown in Puerto Rico and minimize shortage crises in the interest of the public.

2. Tropical has been exceedingly fortunate in meeting

crises through diversion or otherwise and importing propane into Puerto Rico with the assistance of the Oil Import Administration in granting emergency import quotas. Due to the fact that specially built pressure propane tankers required are not normally available or in position at a given time because of their specialized service in particular areas, they cannot always be made available for a crisis.

Mr. Chairman, I want to thank you for the opportunity of presenting our case to you.

CHAIRMAN MOORE: Thank you, Mr. Billups. I would assume from your presentation that we will be hearing further from you.

MR. BILLUPS: That would be my intention.

CHAIRMAN MOORE: You are using the additional 62 barrels of propane to import into Puerto Rico--

MR. BILLUPS: Yes.

CHAIRMAN MOORE: Are you using that as free propane or are you using it--

MR. BILLUPS: For the import quota for which it was assigned.

CHAIRMAN MOORE: Thank you, Mr. Billups. Does anyone else have any questions?

If there is nothing, we will ask for the next witness, The Atlantic Refining Company, Mr. R. D. Bent.

Is Mr. Bent here?

STATEMENT OF R. D. BENT, VICE PRESIDENT

THE ATLANTIC REFINING CO.

MR. BENT: Good afternoon, Chairman Moore, Mr. Snedeker.

I am R. D. Bent, Vice President and Director of Atlantic Refining Company.

Mr. Chairman, Atlantic opposes any increase in the already generous allocation granted Puerto Rico under oil import controls for the following three reasons:

First, the only permissible justification for government control of oil imports is the national security, and to the extent, if any, that oil imports pose a threat to the national security, any relaxation of controls on imports into Puerto Rico would undermine the purpose of those controls.

Secondly, any relaxation of the control on imports into Puerto Rico would increase the strong anticompetitive and discriminatory effects that controls already are exercising. This is so because Puerto Rico would increase its already large andunfair competitive advantage over East Coast refineries.

Thirdly, by far the largest part of the cost of the oil import controls is borne by the East Coast refining industry and hency by East Coast oil consumers. Any relaxation on Puerto Rican import controls would increase the flow into the East Coast from Puerto Rico of products which have not shared the cost of these controls. This in turn would increase the unfair burden that the East Coast refineries must suffer as

a result of oil import controls. E 648

I now shall consider each of these points in turn.

First a comprehensive study of petroleum requirements and supplies in relation to national security objectives was made in 1962 by an interdepartmental petroleum study committee headed by the Director of Office of Emergency Planning. Following this study, the President related the over-all level of crude oil imports for Districts I-IV to 12.2 percent of the estimated production in those districts for the applicable allocation period. The President also maintained rigid restriction on imports of finished products, limiting these imports strictly to their pre-control level. From this it is clear that the President set the limits of imports at the highest level he considered consonant with national security objectives.

The pending proposal before you today to relax controls on crude oil imports into Puerto Rico would have the effect of increasing the movement of foreign oil into Districts I-IV without regard to its effect on national security. Thus, Puerto Rican problems cannot be considered in isolation from national security considerations affecting the entire area of the United States east of the Rocky Mountains. Since the national security is concerned, any change in Puerto Rico's allocation requires a thorough re-examination of the whole basis of oil import controls.

As one aspect of this larger problem, Atlantic submits that, if the national security should, in fact, permit an increase in the amount of foreign oil moving into the continental United States, such oil should be allocated equitably among all importers. Certainly, a piecemeal approach that permits an increase by way of Puerto Rico without taking national security considerations into account must not be permitted. Atlantic suggests that such a step might violate the very statute that is cited to justify controls on all oil imports.

The second is that the proposed relaxation of controls on Puerto Rican oil imports would further disrupt and thwart competition in the oil industry. The Attorney General last month reported to Congress that the "Federal import controls have now as a practical matter become the most significant element of market support." A federal district court last month upheld a merger of major U. S. oil producers on the ground that "the oil industry operates in an artificial environment created by state and federal controls."

These statements are ample evidence a growing recognition that federal oil import controls already are strong anti-competitive factors in the U.S. petroleum market. Yet the present Puerto Rican proposal would increase the program's interference with free competition.

Puerto Rican refineries already enjoy isolation from competition by virtue of the islant's current preferred position

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under controls. While the allocations of Atlantic and other East Coast refiners have dropped steadily and sharply, the allocations of the two existing Puerto Rican refineries have gone up from period to period. Atlantic's allocation has dropped from 40,160 to 30,622 barrels per day since the beginning only of mandatory controls. During the same period, the allocations of the two Puerto Rican refineries have increased from 80,147 barrels a day to 111,240 barrels per day. Atlantic competes with the products from these refineries both in the East Coast market and also in the world market. The discriminatory treatment accorded Puerto Rican refineries under the oil import program in addition to favorable tax and labor advantages available into Puerto Rico puts East Coast refiners at a sharp competitive disadvantage.

While some competitive dislocations are inevitable as a by-product of any governmental control program, disruption of competition is not one of the purposes of oil import controls but rather one of the undesirable consequences. Every step possible must therefore be taken to minimize the interference of controls with competition, and certainly no measures should be taken that would disrupt competition further unless such steps are essential to the purposes of the control program, namely national security. Accordingly, Puerto Rico should not be granted further substantial subsidies.

Third, is that the great cost of oil import controls today is borne by the East Coast and the proposed liberalization

of Puerto Rican controls would add to the East Coast's burden.

Oil import controls were imposed as a form of economic assistance to the petroleum producing segment of the petroleum industry, economic assistance that was deemed essential for the national security. A number of studies have demonstrated that oil import controls have cost the East Coast petroleum industry $100,000,000 or more per year in each of the last five years. At this same time, Puerto Rico has not borne any of these costs of these controls but indeed has benefitted by its special treatment as a haven from the controls.

A very important fact has gone unrecognized and is simply illustrated by looking at a map, Exhibit 1. Gulf Coast crude oil can be delivered to Puerto Rico cheaper than it can be delivered to refineries in the Philadelphia-Boston area since Puerto Rico is actually 120 miles closer to the Gulf than Philadelphia and 400 miles closer to the Gulf than is Boston. This indisputable geography shows there is absolutely no reason why Puerto Rico should not be required to assume its share of support for our domestic producing industry by refining domestic crude oil. Certainly there is no justification for further favored back-door treatment which increases the East Coast's burden for supporting both the domestic producing industry and the Puerto Rican economy.

Both the East Coast and Puerto Rico face economic troubles, but Atlantic submits that the oil import control

program is entirely the wrong tool to deal with these types of problems. Other solutions to Puerto Rico's economic problems have been found in the past in generous tax concessions and other direct assistance to industry and we are convinced that appropriate solutions can undoubtedly be found in the future if necessary.

Mr. Chairman, on that very point, since the matter of the economy of Puerto Rico has been injected into this hearing up to this point rather prominently, I should like to add an additional memorandum, copies of which will be supplied promptly.

This memorandum deals simply with some facts on the Puerto Rican economy as they are available to us. These facts may or may not be in agreement with some of the earlier statements.

Promotional materials published by Puerto Rican authorities speak of a healthy economy and prophesy a prosperous future. Examples follows:

First, the economy is presently booming. Selected indices of progress published by the Economic Development Administration show that the gross national product has risen from 1,645,000,000 dollars in 1960 to 2,193,000,000 in 1963, parenthetically a situation which the East Coast would indeed enjoin, if it could have it.

During the same period the economic development

authority report shows the disposable personal income has risen 31 percent from $1,340,000,000 to $1,759,000,000, while population has risen only 7 percent, from 2,350,000 to 2,534,000.

Next point, the report of the Puerto Rico Industrial Development Corporation for the year ended June 30, 1963 states that operation Bootstrap has given the Commonwealth one of the highest rates of industrial growth in the world, exceeding even that of the European common market. The report details the number of measures taken by the Puerto Rican Industrial Development Corporation, the real estate and financial arm of the Economic Development Association to spur industrial growth.

According to the report these measures have met with marked success. Next, the following statement appears in May, 1964 report from Puerto Rico Water Resources Authority:

"Helping to bring about such extraordinary changes in Puerto Rico's economy has been the Commonwealth Government's comprehensive development program, especially those phases directed and encouraging manufacturers in Continental United States to expand and locate their new plants in Puerto Rico."

Continuing quote:

"As a result of this program the annual inflow of capital from the Continental United States for fixed investment in the Commonwealth it has risen from $30 million in 1947 to $212 million in 1963. Annual fixed investment from all sources has risen from 62 million to 487 million during this

same period, and has equalled 21 percent or more of the growth product for the last four consecutive fiscal years, 1960 through 1963."

Continuing the quote:

"The Puerto Rican people have benefitted greatly from the economic expansion achieved since 1940. Life expectancy has increased from 46 years to 70 years and the death ranges declined from 10.2 per thousand to 6.8 per thousand. Personal income for the average family has risen from $611 to $2,488. Public and private dayschool enrollment has increased from 297,000 to 659,000. University and college enrollment has sprung from 5,000 to 30,900. The future is bright. The May, 1963 report of the Government Development Bank for Puerto Rico states, and I quote, "Experience thus far that termination of tax exemption periods will have only a limited impact as to closing of plants on the industrial program of the economy of Puerto Rico. Moreover the Industrial Incentive Act of 1963 passed June 13th of that year extended the period of tax exemption from 13 to 17 years in less developed industrial areas. 12 years exemption is now available in certain more developed areas. Minimum period remains at 10 years highly developed areas. Other incentives have been provided. Other tax provisions have been liberalized.

Finally, the January 1964 report of the Continental Operations Branch, Puerto Rican Economic Development Authority,

declared that, and I quote, "With an annual real growth rate of over 9 percent during the past two of the last three fiscal years and the economic boom continuing unabated Puerto Rico has been looking forward with confidence to an even faster expansion during the sixties and was achieved during the past decade.

Mr. Chairman we would by no means wish to create any impression that we do not applaud the record I have just read, but it is most certainly not the record of a situation demanding backdoor treatment for economic improvement.

In very brief summary, then, I should like to say that the Atlantic Refining Company consistently, without equivocation opposed on every opportunity what in our eyes has been the completely unjustified extra liberal treatment of this island community with regard to oil import control matters, and we submit to you today that we earnestly and sincerely believe that further enlargement of this loophole may very, very well jeopardize the entire oil imports control program.

Thank you, sir.

CHAIRMAN MOORE: Thank you, Mr. Bent.

Does anyone have any questions he would like to present to Mr. Bent?

I might add here at this point, since Mr. Bent read an additional statement, additional written statements will be accepted through the close of business August 14 in case any

of you wish to have any additional thoughts you'd like to present to me. They should be addressed to me here in Washington, D. C.

I would also like to tell you at this time that a copy of the transcript of this hearing will be available for inspection in the Department of Interior, Office of Information, Room 7214; that's the Office of Information, Room 7214 -- 15, gentlemen, I am sorry, Room 7213, across the hall.

Anyone wishing to purchase copies of the transcript should contact the reporting company, Miller-Columbian Reporting Service, 931 G Street, Northwest, Washington 1, D. C. The phone number there is METropolitan 8-1405. That's the Miller-Columbian Reporting Service, 931 G Street, Northwest, Washington 1, D. C., Phone Number METropolitan 8-1405.

We will next hear from the Hess Oil & Chemical Company--

MR. BENT: Thank you very much, Mr. Chairman.

CHAIRMAN MOORE: Thank you, Mr. Bent.

The next witness will be Hess Oil & Chemical Company, Leon Hess.

STATEMENT OF LEON HESS

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HESS OIL & CHEMICAL CORPORATION

MR. HESS: Gentlemen, this is pretty serious. I haven't seen anybody crack a smile or say anything except listen, and in introducing myself I've got to just say that I left high school and started to drive a coal truck and three years later I graduated to buy a little oil truck for $400.

So, our company, unfortunately, doesn't have one out of 7 technicians and after looking at that beautiful display and the films and the charts and everything, I'm kinda glad we don't have one out of seven.

(Laughter)

I like to understand a little bit what's going on and Stan, you're a way over my head.

(Laughter)

I want to go on record that I'm not objecting -- I'm pretty much -- I shouldn't say "I'm pretty much", but I sort of follow along the lines of the leader of the industry, also Atlantic -- I'm not objecting to petrochemical plants going into Corpus Christi but I vehemently object to being put out of business and I've got a hell of an interest at stake here. I listen to a lot of progress that's being made. We've got two little refineries and we have got a paraffin factory -- 8,000 barrels a day and we can't sell 4,000 barrels a day. And we've got a hydrocracking process and we can't sell all we make. And

we've got benzene that costs us 22 or 21 1/2 cents to make it and we're damned lucky to sell it at 22 cents. And we've got a beautiful orthoxylene plant, prettier than you saw on that film shut down because we haven't got a market. We can't give it away. And gasoline, it's obvious where we stand, we're swimming in it.

(Laughter)

About four years ago--

(Laughter)

I told you there was going to be a crack and a smile and I'm damned glad you're having one.

About four years ago I hung around here all day and one night I let loose and I just want to repeat what I said before, I'm against controls of any kind. Let's have a free economy and let's see where we all end up. As long as the President of this country in 1957 or 1958 deemed that it was necessary to have import restrictions and controls on petroleum and petroleum products, I believe in going along with what he said, even though I doubt that it's for the national security of this country.

I get to what benefits we can get out of national security of this country as far as limiting the import restrictions. Now, it so happens that about the time my dear friend, and I might say he is a dear friend, Ed Carey started the Commonwealth Refining Company down in Puerto Rico tha[illegible]

just about the time I started Perth Amboy, and after a year of operations I had an historical import quota of 12,000 barrels a day of crude oil, and 8,000 barrels a day of finished product, unfinished product, and I was putting them together and coming out with something -- and somehow or other we were able to keep our business with the quality that we were making. We're still able to do that.

Mr. Moore, your predecessors in enforcing this program decided there wasn't a place for us on the unfinished products. The 8,000 barrels a day, that just went up in the air. But they gave us very kindly a 12,000 barrel a day import position or quota for crude oil. Now, from that period, over in this area, our quota went from 12,000 barrels a day -- they threw out our 8,000 barrels a day of unfinished -- and it didn't go to crude oil, and I wonder who has it -- it's down in Puerto Rico. And they cut us down historically -- they played Robin Hood, taking away from us and giving to somebody else -- they cut us down to about 6,000 barrels a day.

And during that same period they just brought that Puerto Rican situation right up to where it's 112,000 barrels a day. And the reason we're getting 12,000 barrels -- 10,000 barrels of crude quota today is only because we went out and bought another refinery and we have got the refining capacity, and we're chewing this stuff up to give it away so we can compete with stuff that's coming in here quota free.

So, if you look at this, here we are with our refining capacity in 1959 was 12,000 barrels a day historical position, 80,000 barrels a day to refineries in Puerto Rico and here we are today, in '63, 112,000 barrels a day to Puerto Rico in refining capacity, and here we are with approximately 111,000 barrels a day of our own refining capacity, but all we get out of this thing -- all we get out of this thing, coming up almost to the same amount of refining capacity, we're down here to 10,000 barrels a day of crude oil import position. And the Puerto Ricans -- I don't mean the Puerto Ricans -- the two companies operating in Puerto Rico are up here to 112,000 barrels a day.

Now, if you can tell me there is any justice in that, if you can tell me you are enforcing this program so you can look in a mirror every morning and say I am fair and I am just, I would like to know how it's happening.

I had to go out and borrow 50 or 60 million dollars the same time Ed Carey had to go out and borrow 50 or 60 million dollars. He owes 14 million and he's got 14 million working capital in that refinery to pay it off.

I owe 70 million. Where in the hell is the justice of this?

In that same period we paid 31 million dollars income tax. How much has Commonwealth Refining paid in income taxes? Now, you tell me where national security and national defense

comes in this way. There is approximately 112,000 barrels a day of crude oil coming from Venezuela into Puerto Rico, and if you will look up at the old reports that I sent in here, if you will look up at the old reports 4, 5 and 6 years ago, I brought out at that time there was 40 or 50,000 barrels going into Puerto Rico and you were bringing in 15 or 20,000 barrels of quota free products. So today you are bringing in 112,000 barrels a day of crude oil, and you are bringing in 60,000 barrels a day of quota free products. You have never reported in your monthly report how much oil or how much finished products are coming from Puerto Rico into the United States. I have tried to get this information and I can't get it. I have gone to the Bureau of Mines and can't get it. And you are able to report every month, and you are a very good and dedicated servant, all of you -- you're doing a damned good job. But let's have the information on record and how much is being shipped in here quota free. I'd say it's 60. Prove our people are wrong. We can't prove we're right.

Now, we come in here with a request, and before we get to the request -- I'd like to know how the national defence is supported by handling oil in tankers from Venezuela to Puerto Rico unload it, refine it and take the finished product and send it up to the East Coast and to the Florida Coast. Now you show me how that's national defense. You are subjecting those tankers to two different transactions. You are

doubling the mileage.

Now, we come in and ask for 50,000 barrels a day more. That 50,000 barrels a day they come right out like gentlemen that they are and say, "We have to take 25,000 barrels a day of that gasoline to the East Coast or the Atlantic Coast to get rid of it. But we are asking your permission."

So that 60,000 barrels a day is 80,000 barrels a day.

Now, gentlemen, in the United States you cannot operate a refinery unless you make 50 percent gasoline because you are paying $3 a barrel or $3.25 a barrel for crude.

So you were talking at 162,000 barrels a day of crude oil quota free coming into this country. Now, we'll just push Phillips requirement aside because I don't think they are entitled to it and after you have listened, I don't think you think they are entitled to it.

(Laughter)

Now, we'll get back to what's going on today with 60,000 barrels a day of crude oil, finished product -- gasoline, solvents, petrochemicals, whatever they may be, residual oil, Union Carbon Carbide -- you're sitting back there, there's some stuff coming in here also, when you throw that 60,000 barrels a day and translate it to a barrel of crude, you're talking about 120,000 barrels a day. And we'll just say crude quota on an exchange basis has a minimum value of $1 a barrel.

Nobody sells at crude quota, everything's exchange, but it has a value of $1 a barrel.

At 100,000 barrels a day, that's 36 million barrels a year, or 36,500,000 -- we're talking about a subsidy of $36,500,000 to seven oil companies who are processing crude in Puerto Rico and bringing the finished products into the United States, to give 900 or 1,000 jobs at about $6,000 a year per man. Now, we'd be a hell of a lot better off giving the Puerto Ricans $6 million a year and quit wasting that $36 or $37 million coming in here with quota free oil. Is that fair? Is that national security?

Talking about the feedstocks for this proposed refinery, are you gentlemen aware that these same feedstocks are in Venezuela and they are being burned for boiler fuel today because they don't have a market? Are you aware of it? And are you going to tell me bringing this from North Africa into Puerto Rico is going to be less national security risk than bringing it in from Venezuela?

And, aside from the subject, talking about burning -- Mr. Billups every Saturday and every Sunday from about the first of May until the first of October at Perth Amboy, we are flaring 100,000 gallons a day of propane because we don't have a market for it. And down in Corpus Christi we are flaring 2 and 300 barrels a day. And we are selling about 400 barrels a day at 3 cents a gallon. And if you can find a way to take

it from our flare in Corpus Christi and take it down to Puerto Rico, you and I can work a deal damned quickly.

(Laughter)

How many more minutes do I have?

CHAIRMAN MOORE: You have all the time you want.

MR. HESS: I'll talk 10 minutes and quit.

Now, in Puerto Rico gasoline sells at 26 cents a gallon, 8 cents is tax -- or 8 cents are tax. That's 18 cents a gallon -- 3 or 4 cents -- you people know the trade, now, I'm not talking over your heads the way somebody else was talking to us -- this you all can understand. So, you are getting 14 cents back for your gasoline down in Puerto Rico. It costs is 10 1/4 cents to make a gallon of light gasoline up in Perth Amboy and it costs us a little less than that down in Texas. And, damn it, we have to sell it along the Atlantic Coast -- we're damned lucky to get 8 cents a gallon for it. That's a quick way to go broke. One, this 60,000 barrels a day coming in there quota free cut up amongst 7 people. Just five weeks ago Kerr McGhee Triangle came to see me. They've got 4,000 barrels a day of gasoline available in Puerto Rico and want to sell it Atlantic Coast -- no market, no home port, they just opened an office; they'll start paddling it down there -- up there. With all due respect to a company, based on their photographs, they're just wonderful. With all due respect to it, they happen to be processing somewhere's around 8 to 10,000

barrels a day in Puerto Rico right now, and they're bringing that in along the Coast, quota free. That's not enough. You have heard their request. I think we all better understand that we have got an industry here that we keep setting rules and going along, it so happens the Chairman of the Board of this company had quite a bit to say in certain conversations as I am told, he was all for import restrictions. Five years later he's against import restrictions, or wants a loophole. What you've got to do now is plug that loophole. Don't plug it by refusing the 50,000 barrels a day; plug it by doing away immediately, now, now, plug it by stopping this.

I'm through.

(Laughter - applause)

CHAIRMAN MOORE: Mr. Hess, do you have some copies of those?

MR. HESS: No, but you can have the charts.

(Laughter)

CHAIRMAN MOORE: I particularly want the first one.

(Laughter)

MR. HESS: I might say if anyone wants to ask me any questions, I'll be very happy to answer them.

CHAIRMAN MOORE: Mr. Hess has very kindly consented to answer any questions from the floor.

Does anyone care to avail themselves of the opportunity?

(Laughter)

CHAIRMAN MOORE: Does anyone dare to?

(Laughter)

CHAIRMAN MOORE: Seriously, thank you very much, Mr. Hess. It was a very interesting presentation.

CHAIRMAN MOORE: We will next hear from Commonwealth Oil Refining Company of San Juan, Puerto, Mr. Sam Casey, President.

STATEMENT OF SAM H. CASEY, PRESIDENT

COMMONWEALTH OIL REFINING COMPANY, INC.

MR. CASEY: Off the record, you don't mind if I speak up the way I see things, do you, Leon?

(Laughter)

Mr. Chairman, I am President and I am Chief Executive Officer of Commonwealth Oil Refining Company.

We welcome this opportunity to testify on the mandatory Oil Import Program relating to imports of crude oil, unfinished oil, and finished petroleum products into Puerto Rico. This is especially so, since we have a keen interest in the efforts of the Economic Development Administration of the Commonwealth of Puerto Rico to establish a petrochemical complex in Puerto Rico as a stimulus to the Island's continued economic growth. Commonwealth Oil, with Economic Development Administration encouragement and endorsement, has itself begun construction of a petrochemical complex which, completed, we believe, will be the largest of its kind in the Western Hemisphere.

At the outset, we express appreciation for the way in which the Oil Import Program has in general been applied and administered with respect to Puerto Rico.

We believe that the Puerto Rican oil import quota system has effectively served the declared national security purpose of Presidential Proclamation 3279, since the movement of products processed from foreign oil from Puerto Rico to the United States has been held within the indicated limits, despite the fact that oil movements from Puerto Rico to the U.S. are not legally restricted.

We feel, too, that the Puerto Rican oil import quota system has served well the interests of Puerto Rico. It has permitted continued access to foreign oil supplies for the energy needs that are so vital to the Island's industrial development. At the same time, we point out that this Company's crude oil imports under the quota system, presently approximately 86,000 barrels per day, have been drawn entirely from Venezuela origin, so that Puerto Rico has provided a substantial outlet for Venezuelan oil. This is also consistent with U. S. import policy as indicated in the Presidential Statement accompanying the Proclamation.

The Puerto Rican import quota system has been conducive to the continued development of the local refining industry. This has meant, directly, very considerable local investment, employment and income payments -- all in line with the goals of the Commonwealth Government and the Economic Development Administration. And it has paved the way to new export opportunities for the Island.

Local refinery development has also been the springboard for related industrial expansion, based on the availability of energy and raw materials from the refineries. The prospects for further related industrial development, including petrochemical operations, are now being translated by Commonwealth Oil into reality and will contribute significantly to the realization of the Government's economic goals.

Turning specifically to the position of Commonwealth Oil, there are two major aspects of the Puerto Rican oil import quota system that we wish to discuss. These are, first, the position of the Company in future expansion of Island refining capacity and, second, the position of the Company with respect to petrochemical development in Puerto Rico. We shall also discuss briefly one aspect of the present import quota system.

Before going into these, it is important to consider the special situation of Commonwealth Oil and the circumstances of its operations, since they bear directly upon the position of the Company under the import quota system.

Commonwealth Oil Refining Company, Inc. is a Puerto Rican corporation, organized in May, 1953, under the laws of the Commonwealth of Puerto Rico. It has the large number of Puerto Rican stockholders. It was established under the Government's Economic Development Program at a time when there

was only very limited interest in creating an Island refining industry.

I might also mention, in speaking of stockholders, that to our knowledge, no one individual owns as much as 10 percent. Also to our knowledge there are no oil companies that have any stock of any kind in their ownership.

From the outset, CORCO has benefitted very substantially from the support of the Economic Development Administration. Under "Operation Bootstrap", the Company has been accorded significant tax relief. During an early period of operational and financial difficulty, a short-term loan commitment from Government agencies helped sigrificantly in carrying the Company forward. The early history of Commonwealth Oil and details of its difficulties in getting started were placed on the record during Public Hearings of the Oil Import Administration at San Juan, Puerto Rico, on July 9, 1959.

In recent years, CORCO has emerged as a viable operation, and can be proud of its ability to show a profit after a long period of discouraging losses. Net profit, as reported for 1963, was some $10 1/2 million. But current profits, it should be pointed out, reflect tax abatement owing to the advantage provided to the Company under the Puerto Rican Industrial Incentive Acts. That is the main reason our company was established.

For its part, the Company has contributed very significantly to the Island's economy. The Company provided many jobs during its construction and expansion phases, and continuing employment and incomes in the course of its operations. It is noteworthy, too, that these benefits to the economy went on without interruption during the extended period of operational and financial difficulties. To date, the Company's total investment has aggregated some $100 million. Indicative of the Company's interests as a Puerto Rican corporation and its confidence in Puerto Rico's future is the fact that new investments made have actually exceeded the $48 million of profits thus far reported to stockholders. In addition, a $41 million petrochemical investment has now been committed.

What has been traced out here is typical of the cooperative efforts of Government and industry in Puerto Rico under "Operation Bootstrap". The Company from the outset recognized its responsibility to the Government to increase its productive capacity to meet not only present but anticipated Island demand and to provide support for expanding Island industry. As shown at a later point, it has met that obligation. We emphasize the importance of continued confidence among the Company's stockholers and the investing public that decisions taken by Government, in the future as in the past, will give due consideration to investments

that have been undertaken in good faith to establish and expand productive capacity on the Island.

This is of very special and immediate concern to our Company in view of the matters before this Board. Commonwealth Oil is an independent non-integrated company operating entirely in Puerto Rico. Its organization and its facilities have been focused upon refining operations in the Island.

As an independent refiner, Commonwealth Oil does not have the outside resources of an integrated oil company. It has neither direct access to its own crude production nor to its own market outlets. CORCO must thus stand or fall solely on the viability of its refining operations in Puerto Rico.

The Company's raw material supplies are obtained under long-term contracts that have been negotiated with various oil companies. In general, the Company sells its products under long-term contracts at prices related to posted prices in world markets. The Company is not a processing refinery which operates on a fee basis. It is, therefore, exposed to market variations in crude and product prices. The continued optimum economic utilization of its capacity is most crucial to the Company's profitability.

Two facts that are basic to the Company's situation follow from the above. First, Commonwealth Oil is

entirely dependent upon its import allocation for the utilization of its refining capacity since the Company could not conceivably operate on United States crude supplies. It would be an economic impossibility for the Company, lacking its own production, to buy crude oil in the U.S. at posted prices, transport the oil to Puerto Rico, and refine and sell competitively produced products from domestic crude at Puerto Rican prices.

It is in a much different position than an integrated oil company which could bring in on its own tankers its own domestic crude, without being concerned with the level of U.S. posted crude prices, and then sell the product through its own market outlets. It is also in a much different position than a mainland refinery which can, because of the availability of domestic crude and the relationship between U.S. crude and product prices, base its operations on a combination of imported and domestic crude.

Commonwealth, therefore, as stated above, is entirely dependent upon imported crude, a fact which has been recognized from the outself of the oil import program. The Company's ability to sustain economic rates of refinery operations thus requires that it be in a position to import crude under its quota in volume sufficient to support economic utilization of its capacity.

The second basic factor is the importance to the

Company and to Puerto Rico of product shipments to the mainland. These product movements were integral in the original economic planning of both the Company and the Government before the U.S. introduced a mandatory import program. From the outset it was recognized that Puerto Rico itself could not support a full-scale Island refinery and that aside from the Puerto Rican market such a refinery must have access to mainland markets. Access to these markets was essential to support an economic scale of operations and to provide a balance between the refinery's product yields and the mix of products that could be sold for local distribution. That is equally true today. Such shipments--within limits consistent with oil import policy -- together with foreign exports have created an added source of income to the Island's economy and have thus benefited Puerto Rico.

An understanding of the above circumstances is essential to an appreciation of the Company's position as an independent non-integrated Puerto Rican refiner. Being uniquely dependent on the economic utilization of its refining capacity, the Company must look forward to import allocations in line with expanding demand and to continued access to U.S. markets for a reasonable volume of products.

Commonwealth Oil -- in keeping with its position as a Puerto Rican enterprise initiated and sponsored under

the Government's Economic Development Program when there was a general disinclination to invest in Island refining--recognizes its responsibility to ensure the continuing availability of petroleum products to meet the Island's rapidly growing requirements.

To ensure that these emerging oil requirements can be met, refining capacity has not only to be expanded, but such expansion has to be planned and effected in advance of actual increases in consumption. It is in the nature of the refining process that added capacity and in-line facilities to produce the variety and quality of required products have to be installed in large and discrete sections. In consequence, the capital requirements of expansion are substantial; and there are inevitable risks in undertaking such capital outlays well in advance of anticipated demand.

Commonwealth Oil has always expanded its refining capacity to meet its obligation to supply local demand. The most recent expansion began early in 1963 and increased the refinery's capacity from 90,000 to 115,000 barrels daily at a cost of over $5 million. It was undertaken so that the Company would be able to meet the increases in Puerto Rican demand which it would be called upon to supply and to provide a broader base of petrochemical feedstocks for both Puerto Rican and offshore markets, and also to supply additional amounts of products for foreign shipments. Under the existing

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Oil Import Proclamation and Regulations, our Company could and did expect that a quota would be available to support such increased demand and expanded operations.

Looking further ahead, Commonwealth Oil confidently anticipates continued rapid expansion in the Puerto Rican oil economy. The Company fully expects to participate and share in that expansion. It expects that the Island's refining industry will, in course, also be expanded. Commonwealth Oil has no compunctions about such expansion of the industry, nor does it resist such competition.

If a new refinery is built at this time, however, Commonwealth Oil believes that the attendant effects upon its own operations which it could not reasonably have anticipated must receive Government consideration. Commonwealth Oil also believes that the capacity installed in keeping with its responsibility to provide for continuing growth in Puerto Rican requirements should not suddenly be rendered "surplus" through Government decision and that investment made in good faith should not be undermined with Government tacit consent, and that positive steps to support the continued viability of Puerto Rico's independent refining will be taken by Government.

We feel confident that a new refinery would not be authorized at this time to share in existing quota allocations and?or market outlets of Puerto Rican refiners without

any advanced plans having been made to phase in its operations with growth in demand and to take into account the position of existing refineries. We should note, however, the problems that would be posed if a new refinery were to be constructed to operate initially on U.S. crudes. A shift in procurement of product supplies from Commonwealth Oil to a new refinery operating on domestic crude would affect Commonwealth Oil in two ways. It would deprive the Company of domestic market outlets formerly supplied from the Commonwealth Oil refinery. It would also bring about a decline in local demand supplied by local refineries operating on quota crude and could thus bring about a reduction in the Island's import allowance and Commonwealth Oil's import quota.

For Commonwealth Oil, the loss of import quota and of Puerto Rican business would mean the idling of capacity. The Company could not economically support refining operations on the basis of purchased U.S. crude and it could not supplant local market outlets by product exports through its own corporate market channels. The idling of capacity brought about by such loss of import quota would, therefore, impose the burden of higher per barrel operating costs on the Company and could seriously threaten its life. This situation cannot be compared to the case where Commonwealth Oil's capacity might be idled by the failure of local

demand to increase as the Company had anticipated earlier. That is one of the normal commercial risks which the Company is prepared, of course, to bear.

If a new refinery is now authorized to operate on U.S. crudes, Commonwealth Oil would expect, therefore, that Government will act at the same time to prevent that decision from destroying the economic foundations on which the Company's investment has been based. Specifically, the following would be required. First, that Commonwealth Oil's import quota would not be adversely affected. Initially that would require that Commonwealth Oil's quota allocation remain the same as it would have been in the allocation period when the new refinery goes on stream. Furthermore, since capacity has just been expanded in anticipation of increasing in local demand -- and certainly normal prudent investment could not have been undertaken for anything less than, say, one, two to three years ahead -- this should be recognized also in subsequent quota allocations. Commonwealth Oil would believe, therefore, that it should be accorded its regular increase in quota in line with increases in local demand for which it installed the added capacity.

Second, it would be necessary that products from the Company's refinery could move to the mainland, over and above the volumes now shipped, to the extent required to replace outlets on the Island that would be lost to a new

refinery. It is important to note that these added product movements to the mainland would not add to the net imports of petroleum by the U.S. since they would be balanced by equivalent exports of crude from the U.S. to Puerto Rico.

We stress again that it is not insurance against normal commercial risk that Commonwealth Oil asks for, but recognition of its situation as an independent non-integrated refiner in Puerto Rico and the unique circumstances under which it was established and which it has to operate. For its part, Commonwealth has willingly entered upon large capital outlays to ensure that refining capacity is adequate to meet anticipated expansion in demand. Having undertaken such investment in good faith, Commonwealth must expect that the essential economics of its operations will be considered by the Government and its several agencies in any decisions that Government may take with respect to the approval of new refining capacity in Puerto Rico. As noted previously, such consideration by Government is essential to investor confidence, stockholder confidence, which has been and is the mainspring to Puerto Rican development.

Most importantly, the steps that Commonwealth Oil believes that Government should undertake in its behalf would not involve any compromise with the broad objectives of U.S. oil import policy. The aggregate of quotas allocated in Puerto Rico would not be greater than if a new refinery

were not in the picture. The net flow of oil into the U.S. from Puerto Rico would not be increased.

Before turning to the second major aspect of the Puerto Rican import oil quota system as it affects Commonwealth Oil, there is one problem which has arisen under the Proclamation as it now stands which we wish to discuss briefly. Recently, fuel for aircraft flying between Puerto Rico and the U.S. mainland has been drawn from bonded sources. Section 2(e) of the Presidential Proclamation exempts from the oil import program free withdrawals by persons pursuant to Section 309 of the Tariff Act of 1939, as amended (19 U.S.C.1309). That exemption has been in the Proclamation from its inception on March 10, 1959, and it, therefore, antedates by several years the actual importation of bonded jet fuel into Puerto Rico. We estimate that the present importation of bonded aviation fuel into Puerto Rico is in excess of 5,000 barrels daily. That demand for aviation fuel has been taken from the Puerto Rican refining industry and is being supplied by foreign refineries.

That shift has not only decreased the markets of Puerto Rican refineries, but also has adversely affected the oil import quota for Puerto Rico and the oil import quotas of the individual refiners. This results from the current allocation procedure, since estimates of local demand are correspondingly reduced. As a result, a Puerto Rican

industry which has earned quota by meeting the demand for aviation fuel in the Island is now being injured. In addition, we understand that aircraft flying from the United States to Puerto Rico are also being bonded jet fuel obtained from foreign sources. This results in a definite leakage in the oil import program and the take-over of a demand formerly met by aviation fuel produced domestically from domestic crude. We believe that that situation is virtually the same as that for Hawaii and Alaska where similar leaks have been stopped. We think that definite inroads in the oil import program are being made and that such inroads will increase if the unintentional loophole that now exists in the Proclamation is not closed. We urge that it be closed. We also urge, as we have in the past, that consideration be given to the inclusion of bonded fuel used in Puerto Rico in the Administrator's findings of Puerto Rican demand, so that crude oil import quotas allocated to Puerto Rico are not adversely affected, during the interim period before the loophole is finally closed.

Commonwealth Oil has long recognized that petrochemical processing could make a valuable contribution to Puerto Rican economic expansion and that the construction of a petrochemical plant would be a logical and natural step for it as a major refiner to take. Starting with its refinery as a base -- considering the facilities, processes and

potential feedstocks that would thus be available -- the Company has over recent years and in fact as soon as it was financially able to do so explored a great many avenues for laying the basis of a sound petrochemical complex industry on the island.

We touch briefly on some past efforts. The Company began concentrating studies in the petrochemical field in 1960. In 1961, Commonwealth Oil completed negotiations with a chemical company which planned to build a phthalic anhydride plant in Puerto Rico. Commonwealth's petrochemical facilities, involving an investment of about $6 1/2 million, would have employed some 100 persons at an annual payroll of over $ 1/2 million, to produce and supply naphthalene to the chemical company for its new project, with provision for subsequent expansion as market conditions permitted. While Commonwealth's plans were firmed up on the basis of a contract with the chemical company, the project did not materialize owing in part to a failure of certain of the chemical company's anticipated markets to develop.

Subsequently, Commonwealth had extended negotiations with a large major chemical company for a joint ethylene-polyethylene project to produce polyethylene in Puerto Rico. This project involved an investment of between $40 and $50 million and would have provided more than 400 n32 jobs on the Island. Approximately half of the output

of the proposed plant was for shipment to Europe. However, when the Common Market annotnced a doubling of the tariff on a number of products including polyethylene, it became impossible to compete successfully in European markets and the project had to be cancelled.

As you are aware, no matter how worthwhile plans may be, projects themselves, as shown above, do not always materialize. In certain instances, however, the Company's efforts have been more successful. For example, there is now in existence adjacent to the Company's refinery a major petrochemical-producing facility. In our opinion it would not have been located in Puerto Rico except for the presence of the Commonwealth refinery.

These examples indicate Commonwealth's continuing concentrated efforts to establish the basis for extensive petrochemical operations in Puerto Rico. Now these efforts are at the point of success and Commonwealth Oil has embarked upon a major petrochemical program.

In November 1963 we announced that the Company was proceeding with the construction of a large scale petrochemical complex in Puerto Rico. A firm contract has been entered into for the sale to a major international group of a large part of the output of our petrochemical plant. Under certain conditions we would sell them more products than originally committed; also because of our close sales tie

we will also have their cooperation in research and development in various areas. Initial capital commitments on the order of $41 million have been made. Construction has begun.

Our new plant was designed initially to manufacture benzene, toluene and xylene. These products are readily transportable and market studies have shown that there is sufficient potential demand in Puerto Rico and throughout the world to warrant a large scale plant in Puerto Rico.

Therefore, the products that can be derived from these aromatic compounds are in our judgment of paramount importance to the growth of the chemical industry in Puerto Rico. In June plans were announced to build satellite facilities for orthoxylene and cyclohexane manufacture.

In 1965, Commonwealth Oil, therefore, will be able to provide most economically Puerto Rican requirements of benzene, toluene, mixed xylene, ortho-xylene, and aromatic solvents.

We will be working up to capacity of these products over a two-year period. Capacity production of each, benzene 66 million gallons per year; toluene, 10 million gallons per year; mixed xylenes 45 million gallons per year; ortho-xylene 10 million gallons per year; aromatic solvents, 10 million gallons per year. Total capacity of 141 million gallons per year.

Plans also call for production of cyclohexane by

1966. The capacity for cyclohexane will be 30 million gallons per year. The aromatics plant will collaterally produce sufficient light paraffinic hydrocarbons to meet the existing and indicated feedstock demand in Puerto Rico for ammonia, ethylene glycol, 2-ethyl hexanol, and butadiene manufacture.

A number of promising satellite petrochemical projects are being considered by Commonwealth Oil. Products involved include ethylbenzene, para-xylene, meta-xylene, hydrogen, ethylene, propylene, and diolefin concentrates.

These satellite plants would require an additional financial commitment and would bring Commonwealth Oil's aggregate investment in petrochemicals to $65 to $70 million.

In line with programs of the Economic Development Administration, the advent of abundant and efficiently produced petrochemicals in Puerto Rico will complete the principal conditions necessary for large scale development of a chemical process industry on the Island. Commonwealth Oil already is working with various foreign and U.S. chemical companies towards development of manufacturing operations which would bring marked benefits to Puerto Rico in manufacturing income and employment. Projects of interest include plants to produce urea, methanol, polyethylene plastics, propylene-based rubbers, styrene monomer and polymer, phenolic resins, nylon intermediates, dimethyl tere-phthalate and polyester fiber, and plasticizers.

Our Company is thus prepared to supply petroleum feedstocks and petrochemical building blocks to all such prospective undertakings at competitive prices. It is expected that a possible investment in petrochemicals of $65 to $70 million by Commonwealth Oil will lead to a five-fold investment, in the area of $350 million, in other areas of the chemical process and related industry in Puerto Rico.

Such operations would create many thousand new jobs in Puerto Rico.

Furthermore, the Commonwealth Oil petrochemical project will open the door to substantial new export markets for the products of Puerto Rican labor. In support of the project, as noted before, Commonwealth has entered into a firm contract with a major international group for sale by Commonwealth of a large part of its output which we are advised is for foreign export. Other export markets will certainly be developed. We believe that there will accrue from this program a favorable balance of trade, amounting to several million dollars annually. At the same time, the Company believes that it will be able to supply competitive petrochemical products in various U.S. markets.

Our new petrochemical complex for Puerto Rico is being built adjacent to Commonwealth's refinery. It will be supplied with feedstocks brought from the refinery and from Venezuelan sources. The plant will have initial capacity for

the production of aromatics equivalent to some 20,000 barrels per day, including both aromatic chemicals and raw materials for satellite chemical plants.

The Commonwealth Oil petrochemical project was originally intended to be a Foreign-Trade Zone operation which would have limited quota requirements, but after careful review of Customs law and discussions with Zone officials, it does not appear possible to achieve the necessary conditions for establishment and economic operation of the petrochemical plant in a Foreign-Trade Zone.

In consequence, the Company has proceeded with construction and is planning for operations within customs territory. Operation of the project in customs territory would, as we have previously advised the Oil Import Administration and Economic Development Administration, require the allocation of an import quota to Commonwealth Oil of 24 to 26,000 barrels per day to provide supplementary petroleum feedstocks for the aromatics plant which, as in the case of our refinery, will be of Venezuelan origin.

With particular reference to the questions that concern the Oil Import Administration, we stress three essential features of the Commonwealth Oil petrochemical project.

First, petrochemical activities on the part of Commonwealth Oil are a natural commercial outgrowth of the Company's refinery operations in line with current trends in

worldwide refining industry. It represents a logical continuation of the Company's operations on the Island, serving the interest both of stockholders and of Puerto Rico. In these circumstances, Commonwealth Oil feels that the aware of a quota to support such petrochemical operations is fully justified, and that it would be fully consistent with the intention and purposes of the oil import policy without involving precedent or setting departure from the existing Oil Import Program.

Second, Commonwealth believes that the integration of the plant with the existing refinery represents a most efficient and economical basis for petrochemical operations. In effect, the refinery will become both a producer and consumer of feedstocks -- being able to supply part of the petroleum feedstock most suitable to the petrochemical plant's output and to take back remaining petroleum fractions for processing in the refinery. It is thus possible to obtain the maximum output of petrochemicals for a given petroleum input.

Third, with established refining operations and the consequent design of integrated petrochemical operations, a minimum of surplus petroleum products will be produced in the course of petrochemical manufacture. As a result, there will be no substantial additions to the Island's available supplies of petroleum products which almost

inevitably would have to be disposed of through shipments to the United States. Thus there will be no distortion of the Oil Import Program.

On this basis, we urge the Oil Import Administration to recommend such changes in the Proclamation and the Regulations as may be necessary to provide full quotas of crude oil and unfinished oils as feedstocks for petrochemical operations in Puerto Rico. We submit that our quota requirements for petrochemical operations can be so accommodated within the framework and pursuant to the intentions of the Oil Import Program.

We have no objection to facing the competition of other potential petrochemical operations in Puerto Rico. We are prepared to do so just as we must meet the competition of many companies in the world markets. But we also strongly believe that in recognition of:

1. the natural commercial extension of our refining operations into petrochemicals,

2. the inherent merits of our project in converting quota inputs into a maximum output of petrochemicals and a minimum coincidental output of petroleum fractions,

3. the investment that has already been committed and the construction that has begun, and

4. the contract entered into to begin supplying a major part of the project's petrochemical output by mid-1965.

Commonwealth Oil's petrochemical operations should receive full quota consideration irrespective of other quota applications for petrochemical projects in Puerto Rico.

CHAIRMAN MOORE: Thank you, Mr. Casey.

CHAIRMAN MOORE: How large is your plant now, Mr. Casey? In barrels to date, throughput?

MR. CASEY: Throughput capacity is 115,000 barrels; our quota is about 186.

CHAIRMAN MOORE: And what will be the capacity after this proposed expansion takes place?

MR. CASEY: It has been completed.

CHAIRMAN MOORE: It has been completed?

MR. CASEY: It has been completed in May of this year.

CHAIRMAN MOORE: It has been completed.

MR. CASEY: Right.

CHAIRMAN MOORE: So this is your new capacity?

MR. CASEY: This is our new capacity, established a couple or three months ago, right.

CHAIRMAN MOORE: I see.

MR. CASEY: This was commenced in the first part of 1963.

CHAIRMAN MOORE: Do you supply petrochemical stock for the Union Carbide?

MR. CASEY: Yes, we do some, on the stream.

CHAIRMAN MOORE: Is there going to be any change envisioned in that?

MR. CASEY: We continue to talk to them about additional feedstock, yes.

CHAIRMAN MOORE: So you intended to supply Union

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Carbide?

MR. CASEY: We will continue.

CHAIRMAN MOORE: This would be in addition?

MR. CASEY: I beg your pardon?

CHAIRMAN MOORE: This petrochemical would be in addition to supplying Union Carbide?

MR. CASEY: Yes.

CHAIRMAN MOORE: Would you also be supplying prophylene free propane?

MR. CASEY: We would be able to produce, at the blending, with the completion of our petrochemical plant, a lower prophylene content propane. How low, we don't know until we get our plant completed and actually see the end product.

CHAIRMAN MOORE: What volume products are you now shipping to the mainland?

MR. CASEY: It is in the area of 37 to 40 thousand barrels a day.

CHAIRMAN MOORE: What does that consist of primarily?

MR. CASEY: That is a little less than half gasoline. Somewhere in that area.

CHAIRMAN MOORE: What does the balance consist of?

MR. CASEY: It is pretty well split between distillates and residual oil.

CHAIRMAN MOORE: Residual oil and gasoline?

MR. CASEY: Right.

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CHAIRMAN MOORE: After this change, will this alter considerably your shipments to the United States?

MR. CASEY: We don't think it will because we have great belief in being able to sell the stream that possibly would have to end up in gasoline, chemical feedstocks, right there on the Island. We do have encouragement in these areas and these would be selling to ourselves, or selling to other people, or further petrochemical plants.

CHAIRMAN MOORE: I think Mr. Snedeker has a question.

MR. SNEDEKER: In your proposed petrochemical plant, how does it differ from the Phillips proposal that you heard this morning?

MR. CASEY: From what I heard, basically, both plants are aromatic plants -- the initial plants.

MR. SNEDEKER: Both are turning out pretty much the same volumes of aromatics?

MR. CASEY: Pretty well, yes.

MR. SNEDEKER: When did you first talk with the Commonwealth Government people on your proposed petrochemical plant -- on your aromatics?

MR. CASEY: The aromatics, we started way back on the other plants. Well actually, whether we talked with the Puerto Rican Government or not, this was the first petrochemical plant back in 1960 that we attempted to put together.

MR. SNEDEKER: As an aromatic?

MR. CASEY: As an aromatic plant, yes, sir; because it does give you a good foundation to go into many, many other petrochemical plants such as we have tried to describe a little earlier today; but I think, certainly, in early '63 we believe, and we made a joint press release with the Economic Development Association in November of '63 regarding our aromatics plant. At that time, we envisioned that to cost a total of about $25 million, and as we developed it, more of our sales took shape that we hoped would take place, and at the moment, we are looking at a $41 million type operation -- the same type of plant.

MR. SNEDAKER: Without any increase in shipments to the other States?

MR. CASEY: No, we did not see that increase, because of increase in the size of the plant, no.

MR. SNEDAKER: Can you, or are you contemplating producing any asphalt?

MR. CASEY: We continue to study that, and we feel now, that possibly, the demand on the Island is great enough to warrant that investment.

MR. SNEDAKER: How about solvents?

MR. CASEY: Solvents would be produced from our aromatics plant, and our Contractor, the Fluor Corporation, told us now that -- in meeting with them in the last week -- that they feel

they can turn this aromatic plant over to us in May; no later than June of '65, which meets some of our summer sales.

MR. SNEDEKER: On your fuel oil, residual requirements, on the Island, are you going to be able to continue to meet the needs of the residual requirements for the Island for the immediate future?

MR. CASEY: Yes, that is one of our points. Yes, we would.

MR. SNEDEKER: You do make commercial jet fuel for commercial airlines?

MR. CASEY: We do. Right.

MR. SNEDEKER: And you do supply commercial jet fuels?

MR. CASEY: Right.

MR. SNEDEKER: How many people do you employ?

MR. CASEY: About 850 at the moment; and our chemical plant, as we have it now conceived, will add to the employment of somewhere between three and four hundred people, and again, our Contractor told us last week that the peak load of workers would average 1,200 for a six-month period, about the middle of this construction period. They are beginning to move equipment in now. All the dirt work and foundation work has been under way for some time.

MR. SNEDEKER: I have one final question, as far as I am concerned.

Have you entirely discarded the use of a foreign trade zone?

MR. CASEY: We have not, but we will continue waiting for some of these rulings, but we truly are disappointed that it did not prove out the way we thought. Initially, we thought, for two years, we would get foreign trade zone.

(1) It would be cheaper; and

(2) Less problems of operation but we find that there is a greater problem of operation involving blocked out operation; exchange of streams, with absolute complicated accounting, at a great cost.

This does not mean that if something we don't see now, does correct itself, and we are able to do it, why, certainly we will. This is the way we originally intended it.

MR. SNEDEKER: As far as you know -- you heard Mr. Hess's testimony, there is no 80,000 barrels a day product move between Puerto Rico and the Mainland, as far as you know, is there?

MR. CASEY: Not that I know of.

CHAIRMAN MOORE: Your figure was 37,000, was it?

MR. CASEY: 37,000to 40,000.

CHAIRMAN MOORE: Of which approximately half is either distillates or residual?

MR. CASEY: That is about right. Pretty well half and half. Possibly a fraction more gasoline. I think the gasoline is around 20,000 barrels a day, or so.

CHAIRMAN MOORE: I understand that many of you would like to see some figures published on imports in Puerto Rico. I think perhaps we will do just exactly that.

I have just one more question here. It is an incidental question, not particularly important.

What is the price of gasoline -- standard gasoline -- in Puerto Rico?

MR. CASEY: The house brand, 87 octane is almost 27 cents, I believe. 26. 28. 26.9. Some marketers are here that could tell you that.

CHAIRMAN MOORE: Does that vary very much?

MR. CASEY: I don't think so. I think it has been a rather consistent price.

CHAIRMAN MOORE: It has been a consistent price?

MR. CASEY: Yes.

CHAIRMAN MOORE: Did anyone from the floor have any questions they would like me to present to Mr. Casey?

There will be no further questions, apparently.

Thank you very much, Mr. Casey.

MR. CASEY: Thank you.

CHAIRMAN MOORE: The Compania Petrolera De Puerto Rico, Inc. Is Mr. Colberg here?

MR. COLBERG: Mr. Chairman, I would like to introduce Mr. Dionisio Trigo, the President of Compania Petrolera De Puerto Rico, Inc.

CHAIRMAN MOORE: Very good to see you, sir.

STATEMENT OF WILSON COLBERG, ESQ.,
On behalf of
COMPANIA PETROLERA DE PUERTO RICO, INC.

MR. COLBERG: I am Wilson Colberg, an attorney in San Juan, and I appear as counsel for Compania Petrolera de Puerto Rico, an independent marketing company in Puerto Rico. We appreciate the opportunity to be heard today and urge that any consideration of increased crude quotas or increased refining capacity for Puerto Rico should take into account the inability of our small marketing organization to find a refinery which will buy or process our crude oil. We have been offered the dubious opportunity of purchasing products, but in that posture we become only another retail customer, and without the cost savings of refining our own crude our independent status is effectively destroyed, leaving us victims and a captive of the controlled sources of supply that today exist in Puerto Rico. Compania Petrolera de Puerto Rico hopes to establish a truly independent source of product supply for the public of Puerto Rico. Without the benefit of crude sales or processing that hope is im-

possible to attain, not only for our company, but for any other independent company seeking to establish itself in the Puerto Rican market. We urge your consideration of this matter and in that connection we wish to call to your attention that we are supported by the Puerto Rican legislature.

On May 20, 1963, the Commerce and Industry Committee of the House of Representatives of the Commonwealth of Puerto Rico, after lengthy public hearings and investigation, submitted to the full house a report pertaining to the general status of the retail gasoline business throughout the Commonwealth, and more specifically, the prevailing contractual relationships between the gasoline companies and their retailers. It was unanimously determined by this Committee that the existing contractual relationships fixed multiple obligations on the retailers without any corresponding obligations on the companies. The Committee also determined that these contracts were coercive and unilateral on behalf of the companies and established a monopolistic situation, eliminated free competition, and were against the public welfare. I have in my hand a copy of that Report and will furnish it to the Chairman.

A major recommendation of this Report is that legislation be immediately enacted declaring the gasoline business in Puerto Rico invested with public interest and asking for immediate approval of anti-monopolistic legislation in addition

to such federal legislation as is already applicable in the Commonwealth. That anti-monopoly law is now in effect in Puerto Rico. Compania Petrolera de Puerto Rico was organized on March 26, 1964 to meet the apparent need for an independent marketing organization to compete for a share of the retail gasoline, grease and lube market in Puerto Rico, that same market which the legislative Committee pointed out as controlled by several U. S. majors through a "captive retailer group."

Immediate negotiations were commenced with the only two refineries in Puerto Rico, namely Commonwealth Oil Refining Company and Gulf Oil Corporation. Compania Petrolera sought treatment equal to that granted by Commonwealth Oil Refining to Shell, Texaco and Esso. These companies sell crude to Commonwealth Oil Refining and subsequently purchase refined products. The Gulf refinery promptly turned down our request for a back to back arrangement, and negotiations continued exclusively with Commonwealth Oil Refining, only independent refinery in the island. Compania Petrolera thought, as it still does, that within Commonwealth Oil Refining's existing import quota of 85,976 barrels per day, the amount of 2,500 barrels a day could be easily accommodated for refining with escalated increases up to 15,000 barrels a day within a period of 1 to 2 years. Commonwealth subsequently notified Compania Petrolera that it would sell

refinery products but would not purchase crude for which Compania Petrolera had already negotiated a purchase. It is our position that Commonwealth, in not purchasing crude from Compania Petrolera was discriminatory and that Compania Petrolera was denied the opportunity to profit on the sale of its crude, thus placing Compania Petrolera in a competitive disadvantage with the other major marketers operating in the Island. On April 28, 1964, Mr. Dionisio Trigo, President of Compania Petrolera, wrote to the president of Commonwealth Oil Refining Company to the effect that Commonwealth's recent offer to sell refined products to Compania Petrolera but without the benefit of previously acquiring its crude, was a practice contrary to Commonwealth's present arrangements with other marketers, thus denying CPPR cost savings made possible to Commonwealth's other supplier-customers. Such a sale without purchase to CPPR would also appear to constitute an infringement upon the recently enacted Puerto Rican antimonopolistic law and on the conditions of Commonwealth's tax exemption grant which requires full compliance with all applicable anti-monopoly laws for the continuance of said grant. Such request for reconsideration was turned down by Commonwealth Oil in a letter to Mr. Trigo of May 6, 1964 on the grounds that its decision had been a "purely commercial" determination. Since then Commonwealth's position has not changed with regard to CPPR.

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As early as March 1964 Commonwealth Oil Refining informed its stockholders at their annual meeting in San Juan that the existing refining industry in Puerto Rico, including Commonwealth, had or was planning capacity "to meet all present and projected demands" for products and petrochemical feedstocks. In commenting upon reports of plans announced by others to build refineries or petrochemical plants in Puerto Rico, Commonwealth Oil argued that it had every reason to believe that the Puerto Rican Government's decisions regarding these reports or rumors would be fully in accord with the government's policy of avoiding actions that would be detrimental to already established government-encouraged industry.

The entire gasoline retail business in Puerto Rico involved the sum of $60 million a year and produces jobs for approximately 3,500 persons. We feel that market will increase as the economy of Puerto Rico expands and grows. To that end CPPR seeks to actively engage as an independent marketer without favor but also without competitive or economic disadvantage.

Much criticism has been voiced concerning so-called "special privileges" for Puerto Rican refiners. A small company such as ours could not conceive of building a refinery in Puerto Rico. I fail to see where such special privileges lie at the present, if we consider that Puerto Rico is different

from Districts I to IV and District V in that refinery built in these latter districts would be entitled to use foreign crude and after one year's operation could receive a quota while any refinery built in Puerto Rico subsequent to 1958 is limited to the use of domestic oil exclusively, without entitlement to an import quota at all. In the light of these positions we must consider White House memorandum from the President dated July 25, 1961, addressed to the Heads of the Executive Departments and Agencies making it essential that the Executive Departments and Agencies be completely aware of the unique position of the Commonwealth and that policies, actions, reports and legislation and other activites affecting the Commonwealth should be consistent with the structure and basic principles of the Commonwealth. That memorandum further emphasizes that the relationship between the federal government and the Commonwealth government is in the nature of a compact providing for self-government in respect to internal affairs and administration, and that this compact should be faithfully observed and respected in relation to all matters affecting the Commonwealth of Puerto Rico.

More recently on July 25, 1964 Mr. Willard Wirtz, the U. S. Secretary of Labor, conveyed a message from President Johnson to the people of Puerto Rico advocating increased self-control within the nature of the mentioned compact. Politically, this understanding should be carefully observed

in considering the present Puerto Rico oil import situation and in coming to grips with the establishment of an ultimate policy which in the end might either cause untold damage to Puerto Rico's economy or incalculable benefits. It is thus nothing less than public interest and executive intent that causes the government to consider the crude import quota problem in Puerto Rico. But it is essential, CPRR believes, that an increase in the Puerto Rican crude import quota or enlarged refinery capacity must take into account CPRR's inability to find a refiner who will purchase or process CPRR's crudes, for contrary to Commonwealth Oil's quoted statement to the effect that the Commonwealth at present meets or plans capacity to meet all present and projected demand for refinery capacity,' CPPR has not found it to be so.

Until CPPR finds a refiner in the Commonwealth of Puerto Rico, its business is unreasonably limited to the distribution of stateside produced lubes and greases, which, by the way, have had an immense acceptance, thus strengthening CPPR's position in believing that there is definitely a need within the Puerto Rican market for the establishment of an independent marketer.

In closing let me again emphasize the findings of the Puerto Rican legislature committee and the anti-monoply law flowing therefrom. CPPR urges that any consideration of additional capacity for Puerto Rico or I might add, any

consideration of the allocation of present capacity take into account our serious and continued efforts to establish a truly independent marketing company in Puerto Rico.

MR. SNEDEKER: How many companies presently market products in Puerto Rico?

MR. COLBERG: It is here in the report.

They are: Texaco; Shell; Esso; Chevron; Sinclair; Gulf; and Mobile.

MR. SNEDEKER: Do you know whether all seven of those companies have crude agreements with Puerto Rico?

MR. COLBERG: To my understanding only Esso, Texaco and Shell; Gulf has its own refinery. The others have some exchange agreements.

MR. SNEDEKER: Are there any purely independent marketing companies in Puerto Rico?

MR. COLBERG: None whatsoever. Ours is the only one.

CHAIRMAN MOORE: Does anyone have any questions from the floor?

(None)

CHAIRMAN MOORE: It now appears, gentlemen, that I believe we will be able to make our deadline. I think we are going to be able to complete everyone by 6:30, at the latest.

Any of those who have travel plans, I am pretty sure we will be a to complete it.

Thank you very much, gentlemen.

MR. COLBERG: Thank you so much, Mr. Moore.

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CHAIRMAN MOORE: Let's gave a five minute break, gentlemen.

(Brief recess)

CHAIRMAN MOORE: Sinclair is the next one up.

STATEMENT OF C. G. DRESCHER, PRESIDENT

SINCLAIR REFINING COMPANY

MR. DRESCHER: My name is C. G. Drescher. I am President of Sinclair Refining Company.

With me is Mr. Stockwood of the Office of Counsel of Sinclair.

The Interior Department's announcement and official notice of this hearing refer to the representations by the Economic Development Administration of the Commonwealth of Puerto Rico with respect to the desirability of the establishment of a petro-chemical complex on the Island. The notice stated that the purpose of the hearing was to receive comments and testimony "on all phases of the Mandatory Oil Import Program relating to imports into Puerto Rico," but did not specifically allude to the Puerto Rican EDA's request that the level of imports of unfinished oils in Puerto Rico be increased in the amount of 50,000 barrels per day. It is assumed that this review of "all phases" of the Oil Import Program must realistically be considered in the context of the current request for an increase in the maximum level of imports into Puerto Rico.

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In any review of the Import Control Program as it relates to Puerto Rico, it should be remembered that the control of oil imports into Puerto Rico was introduced for the purpose of maintaining the integrity and effectiveness of the Oil Import Control Program on the mainland. It was early recognized that, absent controls over Puerto Rican imports, the restrictions on the importation of foreign crude and unfinished petroleum products into the United States might easily be evaded by means of transshipments of petroleum through Puerto Rico. Because of the freedom of shipment from Puerto Rico to the United States, it is not possible in the regulatory plan to segregate control of imports into Puerto Rico from control of imports into the United States Mainland. Such controls are inextricably linked. This interdependence is particularly apparent as between Puerto Rico and Districts I-IV.

It is of course well known that there is no limitation or restriction on the shipment of commodities from the Island to the mainland. It was, in all probability, for this reason that the Proclamation (Section 2(c)) relates the maximum level of imports into Puerto Rico to the level of Puerto Rican imports during the year 1958, and further expressly ties any increases or decreases in such maximum level to increases or decreases "in local demand in Puerto Rico or demand for export to foreign areas." The obvious purpose of these pro-

visions of the Proclamation is to prevent any increase in the volume of shipments of petroleum products into the United States Mainland from the Island.

The granting of the request of the Economic Development Administration of Puerto Rico for an increase in the maximum level by 50,000 barrels per day would, in our judgment, require either disregard or drastic revision of the current controlling Presidential Proclamation. We assume that neither the Administrator nor the Secretary would desire to disregard the clear provisions of the Proclamation, and we avail ourselves of this opportunity to express our belief that the Proclamation should not be revised to permit this requested increase.

According to the petition in Docket No. K-12 pending before the Oil Import Appeals Board, filed by the company which desires to establish the petro-chemical complex at [redacted] Puerto Rico, the principal product of the "petro-chemical complex" would be motor fuel. From the allocation of 50,000 barrels per day of imported unfinished oils requested, no less than 24,800 barrels per day of motor fuel would be manufactured. The transshipment of thos motor fuel into the United States would have substantially the same effect on domestic producers and refiners as if the Oil Import Administration increased the imports of crude oil into the United States by 50,000 barrels per day.

This request to permit the "leakin the dike" via Puerto

Rican transshipments should not be favorably considered. It may reasonably be assumed that the establishment of the petro-chemical complex now being sought would be only the first step in a series of developments which could well compromise the entire U. S. Oil Import Control Program. It has been published that at least two other major oil companies desire to expand or establish refining capacities in the Caribbean area. Just since this hearing was announced the trade press has reported the planning of additional refining capacity in the Virgin Island area.

It is our understanding that under the currently effective Presidential Proclamation this indirect importationof foreign crude and unfinished oils into the United States from Puerto Rico has been stabilized at approximately 40,000 to 45,000 barrels per day of finished products. The granting of this request of the Economic Development Administration of Puerto Rico to raise the level of Puerto Rican imports would have the effect of eliminating this stabilization of indirect oil imports by permitting substantial volumes of finished products manufactured from foreign crude or unfinished oils to flow into the United States Mainland. It seems that any changes affecting Puerto Rican imports should point in the opposite direction. It would be more desirable and consonant with the Import Control Program to reduce the already substantial volume of indirect oil imports.

Thank you, Mr. Chairman.

CHAIRMAN MOORE: Thank you, Mr. Drescher.

Does anyone have any questions from the floor?

I believe there are no questions.

Thank you very much.

Texaco will be next, and following Texaco, we will hear from Gulf and then Globe.

STATEMENT OF JAMES F. CLIFTON, Exec. VICE PRESIDENT TEXACO, INC.

MR. CLIFTON: Mr. Administrator and Assistant Administrator, my name is James H. Clifton, Executive Vice President of Texaco and sitting here with me is Mr. Henry Meyer, Vice President in Charge of Foreign Sales, which includes the Puerto Rican area.

Pursuant to the notice of a public hearing to receive comments and testimony on all phases of the Mandatory Oil Import Program relating to imports into Puerto Rico of crude oil, unfinished oils and finished products, Texaco offers this statement in its behalf as well as for Texas subsidiaries in Puerto Rico.

This statement relates only to Texaco's participation in the development and growth of the Commonwealth of Puerto Rico, our present business there, its immediate and long-range plans for stimulating such growth, and the need for favorable consideration by the Oil Import Administration to permit under its program the import of the crude oil requirements which will be necessary if this growth is to be achieved.

Texaco has been engaged in producing, refining, transporting and selling petroleum and its products, and other attendant activities, for more than 62 years. The Company is engaged in the oil business in all 50 states of the United States, in the Commonwealth of Puerto Rico, the Virgin Islands, and most of the other countries of the Free World, either directly or indirectly through subsidiaries and affiliates.

Texaco first began to do business in Puerto Rico in 1911 and Texaco, as the principal marketer of petroleum products in Puerto Rico, is proud of its contribution to the economic developments during this period.

Texas Puerto Rico, Inc., with headquarters in San Juan, has 263 employees practically all of whom are Puerto Ricans, including the President of the Company, who is Manager in charge of Texaco Puerto Rico operations.

Texaco Puerto Rico Inc. has product requirements in Puerto Rico amounting to approximately 14,000 barrels per day. We have two ocean terminals and several secondary bulk storage points, most important of which is located at the San Juan International Airport to supply aviation fuels, where Texaco participated in the construction of the ultra-modern underground fueling system. This was the forerunner of and was used as a model for much more recently built ones, such as Dulles International Airport. This ultra-modern development contributes to the efficiency of Puerto Rico's important

revenue producing Tourist Business, an activity offering extensive employment opportunities.

Texaco has 300 service station outlets, each and every one of which is an independent business venture conducted by an independent local businessman. These 300 service stations, operated by private Puerto Rican businessmen, provide direct employment for more than 1500 persons. Texaco maintains and directs educational facilities for instruction of these independent businessmen and their employes in the field of service to the public, merchandising and operating their businesses profitably.

Additionally, Texaco's operations contribute to the employment of many more people through its construction, maintenance and transportation activities. By virtue of its commercial operations, it indirectly supports employment in many other fields, such as stevedoring, banking, insurance, legal services, advertising, and in material and supply houses. In our operations we use considerable quantities of materials and we favor those that are manufactured in Puerto Rico.

Since the principal refining activity in Puerto Rico is on the south shore and the principal markets are to the north, extensive costly transportation is involved in delivering petroleum products to the local markets. Texaco, through contemplated 40% stock ownership in a company known

as "Pipelines of Puerto Rico Inc.", is cooperating in plans for a $4.25 million pipeline from the refinery area in Guayanilla to Catano, where there will be a delivery terminal and a spur line leading to the airport.

Considering the important contribution of Texaco's activities to the economic progress of Puerto Rico and Texaco's substantial investment of many millions of Dollars, Texaco is proceeding with plans to build a refinery on land it has purchased in the vicinity of Guayanilla. This refinery will assure supply to meet Texaco's requirements and is necessary to protect its investment and contemplated growth. Texaco's refinery will yield fuel oils in excess of Texaco's local requirements and this excess is forecast to be shipped offshore to other markets. Eventually, this refinery complex can be expected to manufacture petrochemical feed stocks and petrochemicals to enlarge the expanding petrochemical industry developing in Puerto Rico. It is expected that the petroleum requirements alone of Puerto Rico will increase at the rate of more than 6% per year. Texaco intends to participate in this overall development.

Texaco's refinery will represent an additional investment in Puerto Rico of approximately $25 million and will provide for additional permanent employment for more than 100 skilled Puerto Rican workers. This does not include the additional employment during the period of construction, nor the

continuing indirect employment in other commercial activities created by the operation and maintenance of the business of running a refinery.

The present Oil Import Program has separate provisions governing the importation of crude oil into Puerto Rico. As now written, the Proclamation and the Regulations deny to a new refiner an import quota because it has no refining capacity or import history in Puerto Rico in the base period consisting of the third quarter of 1958. The Program, as now in effect, perpetuates the 1958 refinery allocation pattern for Puerto Rico, and gives no opportunity for new refiners. Texaco recommends that both the Proclamation and the Regulations be amended to give a new refiner in Puerto Rico an opportunity to participate in the import quota on an equitable basis, as accorded existing refiners in Puerto Rico.

CHAIRMAN MOORE: Thank you very much, Mr. Clifton.

You say you are the largest marketer on the Island?

MR. CLIFTON: Yes, sir.

CHAIRMAN MOORE: Do you move any products from the Islands to the States?

MR. CLIFTON: None whatsoever.

CHAIRMAN MOORE: None whatsoever.

MR. SNEDEKER: Where would you get your crude for running your refinery in Puerto Rico?

MR. CLIFTON: Well, we are trusting, Mr. Snedeker, that by the time that refinery is ready to go on stream, that equity and justice would have prevailed. We would be able to be treated on the same basis as the other refiners on the Island. We think this thing will have straightened itself out by then.

CHAIRMAN MOORE: In the event that does not occur, where would you get your crude?

MR. CLIFTON: Well, you are the Administrator.----

If that happens, Mr. Moore, we will have to take another look at our plant.

CHAIRMAN MOORE: Does anyone have any questions to be presented to Mr. Clifton?

Apparently there are none.

Thank you.

CHAIRMAN MOORE: I believe Mr. Jerry McAfee of Gulf Oil Corporation is next.

STATEMENT OF JERRY MC AFEE, SENIOR VICE PRESIDENT GULF OIL CORPORATION

MR. MC AFEE: Mr. Chairman, my name is Jerry Mc Afee. I am Senior Vice President of Gulf Oil, Pittsburgh, and I am accompanied among others, by Mr. K. S. Manning. Gulf's world-wide coordinator for product supply.

Unless you specifically request otherwise, Mr. Chairman, we will spare you the details of our biographical sketches and we would like to say that we do appreciate this opportunity to present Gulf's views about various aspects of the Puerto Rican Import Program.

Gulf Oil Corporation has consistently taken the position that the import control program for Puerto Rico should be designed to maximize benefits to Puerto Rico without increasing petroleum product shipments from Puerto Rico to Districts I-IV. We think the current regulations setting the level of Puerto Rican imports have accomplished these objectives.

Puerto Rican progress is not only important to the welfare of Puerto Rico, in which we are deeply interested, but it also provides an example to underdeveloped nations of the benefits resulting from democracy and a free enterprise system. It is obvious, however, that unrestricted shipments of finished petroleum products from Puerto Rico into Districts I-IV

could materially impair the effectiveness of the oil import control program.

The over-all import control program was wisely designed, we think, to provide for three separate areas (Districts I-IV, District V, and Puerto Rico), each of which has its own peculiar problems. However, care must be taken that any changes in the program for one area do not significantly weaken the program for another area.

The present program which provides for increased imports into Puerto Rico to meet increased -- as the regulations say -- "local demand in Puerto Rico or in demand for exports to foreign areas." has accomplished the desired objectives reasonably well. Imports of crude petroleum into Puerto Rico have increased 39% since the program began in 1959, and the economy of Puerto Rico has grown sharply. Gross national product in fiscal year 1963 was 50% higher than in 1959. At the same time, shipments of petroleum products from Puerto Rico into Districts I-IV have increased only slightly since 1959, and since 1961 there has been no increase. Furthermore, Puerto Rican petroleum imports have all originated in the Caribbean area, primarily Venezuela.

We think the allocation system for Puerto Rico should be modified to encourage exports of petroleum products to foreign areas. We also recognize that it may be considered desirable to permit granting quotas to new refiners and would not oppose this provided this could be done without disrupting the entire

import control program. This could be accomplished by granting to any refiner (new or old) a quota to cover that portion of the local market he supplies, plus his products exports to foreign areas, plus his historical shipments of products to Districts I-IV.

Under the present allocation regulations, the efforts of an individual crude importer to increase products exports to a foreign area increases the over-all level of authorized crude imports, but the increased authorization is shared by all importers. If the individual crude importers were allowed to increase their own imports by an amount equal to their increases in exports, they would be encouraged to devote the effort necessary to the expansion of exports. The expansion of exports of petroleum products from Puerto Rico would help the United States balance of payments as well as provide additional production activity in Puerto Rico.

We agree with the Economic Development Administration of the Commonwealth of Puerto Rico that a stimulus to continued economic growth in the Commonwealth could be provided by the establishment of a petrochemical complex on the island. However, in our judgment, the establishment of this petrochemical complex must be in keeping with the requirement that the program for one area of the import control program not materially weaken the control program of another area; thus it must be designed to prevent an increase in products

shipments from Puerto Rico to Districts I-IV.

This could be accomplished by placing the petrochemical complex in a foreign trade zone, such as Union Carbide has done. The utilization of a foreign trade zone would provide Puerto Rico all of the advantages of capital investment, employment, and the incentive for the location of satellite industry. However, it would not impair the import control program by increasing shipments of products into Districts I-IV, as could proposals under consideration.

Gulf position, in summary, is briefly this:

(1) The existing system for determining the overall level of imports into Puerto Rico has been successful and should be maintained. Gulf would not oppose amendments which would permit granting quotas to new refiners provided it is done in such a way as not to weaken the effectiveness of the program in other areas.

(2) Economic gain to Puerto Rico and to the United States balance of payments could be realized by modification of the current method of allocation to individual importers to provide them with an incentive to export petroleum products.

(3) The establishment of any petrochemical complex in Puerto Rico must be on a basis that will not weaken the import control program by increasing shipments of petroleum products into Districts I-IV.

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CHAIRMAN MOORE: Thank you very much.

Do you intend to -- do you have any plans in Puerto Rico for the development of any petrochemical complex at all of your own?

MR. MC AFEE: Well, sir, as has been recently announced, we are currently engaged in a significant expansion of our refinery there. This expansion will include some facilities which can be used as a basis for further petrochemical projects.

We have been looking at petrochemical projects for Puerto Rico from the beginning and most particularly, very intensively over the last couple of years. The problem we have faced has simply been the volume of our operations, which are relatively small, compared to the economic volumes required for the economic operation.

We think and hope and believe that this expansion and the new facilities that are going in may put us in a somewhat better position to work out an economic petrochemical project of some nature.

CHAIRMAN MOORE: Apparently, your plans have not progressed to the point where you know what products you wouldbe planning.

MR. MC AFEE: No, sir. That is correct. However, it would be aromatics -- the facilities I would refer to would be aromatic producing facilities.

CHAIRMAN MOORE: Are you planning on producing any

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asphalt?

MR. MC AFEE: Under the new stream, I am going to ask Mr. Manning to answer that.

MR. MANNING: No, Mr. Moore, we do not have any plans at the present time to produce asphalt.

CHAIRMAN MOORE: Do you now produce any jet fuel?

MR. MANNING: No, but we have just recently, within the last 60 days, completed some piping connections and minor alterations, so that we are now capable of blending J.T. 4, which we presently have not been able to do.

MR. SNEDEKER: What is your present capacity of your refinery?

MR. MANNING: Just about 27, 28 thousand barrels per day.

MR. SNEDEKER: What will it be when you get your new facilities completed?

MR. MANNING: As high as 45,000. Between 40 and 45 thousand.

MR. SNEDEKER: Do you ship any products to the Mainland?

MR. MANNING: Yes, we do.

MR. SNEDEKER: How much is the volume?

MR. MANNING: Up through the year of '62, we were shipping approximately 9,000 barrels a day -- about 3,000 barrels each of gasoline, distillates, and residuals.

In 1963, we shipped about the same amount of gasoline,

but about 5,000 barrels a day of residuals; having lost the contract on the Island.

In 1964, our total shipments will be between 11 and 14 thousand barrels per day, depending on how the export market for distillates develops.

The last year, we shipped no distillates to the East Coast.

This year, this summer, we are moving distillates and gasoline is 3,000 as it has been, approximately; residual is approximately 8,000 barrels per day this year, and the distillates could be as much as heretofore -- or perhaps less -- between 11 and 14 thousand.

MR. SNEDEKER: You are the only mover from your refinery, are you not?

MR. MANNING: That is correct.

CHAIRMAN MOORE: Are there any further questions from the floor?

The Chair hearing none, we will proceed.

Thank you very much.

CHAIRMAN MOORE: We will now hear from the Globe Oil Company, Virgin Islands, Inc.

Mr. Johnson and Mr. Farrelly.

STATEMENT OF RUSSELL B. JOHNSON, ESQ., and
STANLEY FARRELLY, ECONOMIC DEVELOPMENT MANAGER
GLOBE OIL COMPANY VIRGIN ISLANDS, INC.

MR. JOHNSON: Mr. Chairman, my name is Russell B. Johnson, I am an attorney practicing in Christensen, St. Croix, U.S. Virgin Islands.

With me is Mr. Stanley Farrelly, Economic Development Manager who is the economic advisor to Glove Oil Company, Virgin Islands.

I propose to develop for you something a little different, I believe, from what has been heard so far today; but originally may I say that the Globe Oil of the Virgin Oils, is a wholly owned subsidiary of Shaheen Natural Resources Company, Inc., and it intends to construct and operate a multi-industry complex on St. Croix. The basis of this complex will be a plant for the conversion of crude petroleum into intermediate products serving as feed stocks for the manufacture of petrochemicals. This secondary stage, leading to finished chemical products, will be accomplished by the company itself or through an arrangement with a chemical company to purchase the intermediate feed stocks and erect their own plant for the final manufacture within this complex.

At present the principal intermediate products visualized

are aromatic hydrocarbons such as benzene, toluene and xylene which are the starting points for such products as plastics, synthetic detergents and synthetic fibers, particularly nylon. The progress of technical knowledge today is such that an infinite variety of other compounds can also be produced. It may well be that on account of the interlocking nature of chemical operations involved it may prove profitable to manufacture other end products such as nitrogen fertilizers or plastics such as polyethylene, to name only two.

Naturally, the preparation of the intermediate chemical compounds involves the process of petroleum refining. In a modern refinery, particularly one starting from the grass roots, the engineering design will be such that all gases will be confined and used to the utmost. (Using the old analogy of the stockyards, we will consume all of the pig including the squeal). Thus no unpleasant odors need be anticipated nor will there be any objectionable liquid effluents from the refinery.

May I point out parenthetically that this factor, in St. Croix, is of vital concern.

It is not economically feasible to convert 100% of the crude oil into chemical products and consequently, in order to make the project economically viable, it will be necessary to dispose of conventional refinery products such

as gasoline, heating oils, and fuel oils. The obvious market for these products is in the United States and it appears only equitable that such products, manufactured under the U. S. flag in one of the Virgin Islands, should be allowed a product import quota into the United States.

The construction and operation of the complex on St. Croix will involve the following considerations, among others:

A. PLANT CONSTRUCTION AND OPERATION.

This will first involve site preparation including earth movement, construction of drainage facilities, roads, fences, wharves and piers. In the latter stages of construction, all types of skilled mechanics will be needed in addition to a very considerable force of ordinary labor. After construction is complete, the operating staff will be mainly skilled operators and mechanics and a considerable clerical force will also be required.

B. PREFERENCE TO LOCAL LABOR.

Local labor will be hired at the prevailing rate and will be screened to determine the availability of skilled and semi-skilled workers.

A program will be undertaken to train and qualify as many local workers as possible. This training program will not only prepare personnel for jobs made available during the construction period, but will also educate them

to retain jobs that will become available after the construction phase has ended and the operation of the plant begins. The construction phase will take approximately two years to complete. During that time qualified labor will be taught plant operations.

C. PREFERENCE TO LOCAL MERCHANTS.

Wherever practicable, preference will be given to local business interests in the purchasing of supplies and services. During the construction phase approximately 800 to 1,000 persons will be employed. After construction, hundreds will be permanent; therefore, a new community will develop consisting of housing, shopping areas, schools, medical centers, etc. In addition, many other beneficial community projects will be established, thus injecting a healthy, stable economic community.

It is obvious that this complex project is subject to continual growth and will greatly benefit the economy of the Virgin Islands. The initial capital investment could well be in the region of one hundred million dollars; construction alone would thus provide employment for a large number of people. Once the plant is operating it will provide stable and remunerative work for others and undoubtedly bring subsidiary industries in its train. It may be well to mention that the problem of water supply for such a project has been fully recognized and that our plans include the provision of a plant to produce sufficient quantities of fresh water from sea water.

Now, Mr. Chairman, the Virgin Islands occupies the same political status, I believe, as that of Puerto Rico. It is an unincorporated territory of the United States. It is located just east of Puerto Rico and flies the American flag.

The Virgin Islands has had this political relationship with the United States, having been acquired from Denmark in 1917. For many, many years, until about 10 years ago, the Virgin Islands was more or less the sleepy island in the Caribbean; attempts had been made to stimulate its economy by statutes similar to that of the Boot Straps Operation, Puerto Rico. But the type of industry that was most attractive seems to be the suitcase industries, that can leave quite readily, depending upon their own business situation.

However, recently, the legislature and the conduct of the Administrator of the Island, has attracted one large industrial operation, which is the type of operation that the Virgin Islands needs. That particular industry is concerned with the manufacture of aluminae from bauxite. That plant is now in the course of construction, and it is contemplated to be finished within the next year and a half.

The creation of a petrochemical complex would be another type of industry that the Virgin Islands badly needs, and one which I think is in the interest of the United States to attempt to help establish.

The Virgin Island -- those people who live there --

many of us who came from the Continental United States and made it our home, we are treated somewhat different than the U. S. citizens resident in the Continental United States.

For instance, when I moved there, I became disenfranchised. The treatment, as far as our shipping is concerned, is somewhat different because the coast-wide shipping laws do not apply to the territory of the Virgin Islands. We are outside of the U. S. customs territory, also, but insofar as the Administration can treat the Virgin Islands as equal to the States, I believe it should do so.

Our other industry, and the one historically that has been the great industry there, is tourism, and it is obvious tourism fluctuates from time to time, based upon international situations; economic conditions in the United States, and so on.

The job opportunities in the territory are basically tailored around tourists and involve driving taxicabs; taking of jobs in hotels such as waiters and matters of that kind.

The bulk of the Virgin Islands today, has full employment, but at the same time, it has under employment in that anybody that wants to work can get a job but the prevailing wages for those people who take those jobs, is in the nature of a dollar an hour or less.

The creation of an industry that requires skilled or semi-skilled labor, and pays wages at the prevailing rates specified for interstate commerce goods, would raise the

standard of living for the people of the Virgin Islands, and therefore, it is worthy of consideration along that line.

The Virgin Islands also has a problem in jobs for people, in that the young folks, when they graduate from high school, they do not stay in the Territory. They tend to immigrate to the United States.

The creation of this petrochemical complex in the territory would assist in this connection, and indeed, it would attract many thousands of Virgin Islander residents on the East Coast back to their home land.

May I say, Mr. Chairman, in conclusion, that Globe Oil Company of Virgin Island, Inc., seeks an import quota into the United States of finished products, in the nature of gasoline, heating oils and fuel oils resulting from the proposed petrochemical complex.

The quota requested in this connection is 40,000 barrels per day.

Thank you very much.

CHAIRMAN MOORE: Thank you very much.

With respect to what you just mentioned a few short moments ago with respect to Labor, would it be necessary to import labor or can the labor on the Island be currently available -- the skilled labor you would require?

MR. JOHNSON: At the present time, there is not a sufficient supply of skilled labor available in the territory.

However, as a part of the proposal that Globe is making, vocational training courses are being and will be set up.

CHAIRMAN MOORE: What is the current demand for petroleum on the Island? Do you know that figure?

MR. JOHNSON: I do not have that figure, Mr. Chairman. I would be glad to supply it for the record.

CHAIRMAN MOORE: We would appreciate having that.

What are the principal products?

Do you use residual fuel oil on the Island in any quantity?

MR. JOHNSON: The principal demand is of course, gasoline. There is some demand for kerosene and diesel oils.

CHAIRMAN MOORE: And I believe you said you contemplated 40,000 barrels, is that correct?

MR. JOHNSON: That is correct.

CHAIRMAN MOORE: Would that be the size of this complex?

MR. JOHNSON: That would be the volume of finished products to be supported from the Virgin Islands and imported to the United States.

MR. SNEDEKER: What would be the capacity of the plant: total capacity?

CHAIRMAN MOORE: Input capacity. Crude oil input?

MR. JOHNSON: I do not have that specific figure at this time. My briefing concerned the volume of the products manufactured.

CHAIRMAN MOORE: Does anyone have any questions they would like to present to Mr. Johnson?

MR. SNEDEKER: I would like to ask one more question.

You mentioned something about the shipping laws.

Are not American shipping required between the Virgin Islands and the Mainland?

MR. JOHNSON: No, sir. Foreign bonds may move between the Virgin Islands and the United States.

MR. SNEDEKER: And the Virgin Islands and Puerto Rico?

MR. JOHNSON: And the Virgin Islands and Puerto Rico.

CHAIRMAN MOORE: Apparently, there are no further questions, Mr. Johnson.

Do you have any comments you would like to make?

MR. FARRELLY: I would like to make a brief statement, if I may, sir.

My name is Stanley Farrelly. I was born in the Virgin Islands. My present position is Economics Development Manager for Globe Oil.

I have spent all my life in business in the Virgin Islands, except for a few years when I was a U. S. Marshall of the Virgin Islands, and I just came back from the Conference in San Francisco.

It is imperative and important that additional industry be allowed in the Virgin Islands, to stabilize the Island's economy. More so, since the formerly and federally owned Virgin Island Cooperation is now in the hands of a private

owner, and it is not expected that the present owners of the Incorporation will be as free and as liberal from the standpoint of employment as the federally owned Virgin Islands Corporation.

Due to the lack of natural resources, the advent of a new industry, such as Globe, is most welcome, and the people of the Virgin Islands look with high hopes and aspirations, to a company that will give us stabilization from an economic standpoint.

Presently, an era of doubt and uncertainty exists, since there is no industry except the type mentioned by Mr. Johnson, that can offer regular and substantial, gainful employment, and I can go on and go on, Mr. Administrator, to show your Board why it is necessary and imperative that Globe be granted their request.

Mr. Chairman, after due and proper consideration, I respectfully request that the Globe be granted what they have asked this Honorable Board for.

I thank you.

CHAIRMAN MOORE: Thank you, Mr. Farrelly.

Do I hear any questions from the floor?

Perhaps one of you could answer this.

Is the Globe Oil now in existence or is it just a corporate shell at the present time?

MR. JOHNSON: It is a corporation, qualified under the

laws of the Virgin Islands and is a domestic corporation.

CHAIRMAN MOORE: You are not in the marketing of oil at the present time?

MR. JOHNSON: Not at the present time.

CHAIRMAN MOORE: Thank you very much.

STATEMENT OF GEORGE MYERS, EXECUTIVE VICE PRESIDENT
STANDARD OIL COMPANY OF INDIANA

MR. MYERS: Mr. Moore and Mr. Snedeker, I am George V. Myers, Executive Vice-President of the Standard Oil Company of Indiana. We will speak briefly today with regard to the Mandatory Import Control Program as it relates to imports into Puerto Rico.

As soon as mandatory import regulations were imposed in 1959, several imperfections and inequities in the over-all plan were evident. Although some progress has been made by the government in correcting the deficiences, several still remain.

One inequity to which we specifically address ourselves today is the lack of effective control on product shipments from Puerto Rico to the Continental United States. This is a distinct loophole in the import program that can become more damaging to the domestic petroleum industry if the proposed petrochemical complex now under consideration becomes a reality.

Certainly we are in favor of any project that will provide substantial benefits to the Puerto Rican economy. We feel, however, that before authorizing any increase in imports to the Commonwealth, the Federal government should revise the import program so as to eliminate harmful consequences to the mainland petroleum industry.

Our concern is not over the amount of foreign oil permitted into the Island, for we appreciate that its geographical location makes it important that it have adequate quantities of crude oil available from nearby sources. We are concerned, however, over the fact that Puerto Rican refiners, whose entire input consists of foreign oil, can produce refined products at substantially lower costs than can refiners in the States whose throughput of foreign crude is severely limited by law. With this economic advantage, refiners in the Commonwealth who have satisfied local requirements and have no other markets can easily find outlets on the mainland for their excess products.

The Federal government would defeat its own purpose of preserving a strong U. S. petroleum industry if on the one hand it acts to bolster the economy and defense capabilities of Puerto Rico, yet in so doing permits a flow of low-cost petroleum products to the Contintal United States, where they can compete unfairly with products derived largely from higher-cost domestic oil.

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No direct restrictions currently exist on product movements from Puerto Rico to neighboring states, although indirect control may be exercised by establishment of a maximum level of crude and product imports into Puerto Rico. We refer to Section (2)(c) of the Presidential Proclamation, which stipulates that imports into the Island shall approximate 1958 base levels unless "required to meet increases or decreases in local demand in Puerto Rico or in demand for export to foreign areas."

That stipulation obviously was intended to prohibit increases in Puerto Rican import quotas if any of the resulting product output were to be marketed in the United States. In spite of this existing regulatory safeguard, product shipments to the mainland have been permitted to increase substantially. This is, of course, contrary to the basic objective of the Mandatory Import Program. Since initiation of mandatory controls, such movements have expanded at a rate in excess of 15 per cent per year. In 1963 these movements to the mainland were 125 per cent above 1958 base levels.

Admittedly, the increase in shipments from Puerto Rico since the inception of the mandatory program has not been especially significant when compared with the total volume of U. S. imports. However, recent press announcements indicate that we are at a crossroad in the treatment of Puerto Rican product shipments to the Continental United States. The

proposed 50,000 barrel-per-day petrochemical venture will turn out almost 25,000 barrels daily of motor fuel as well as a full range of chemical products.

The proposed size of the new petrochemical facility in itself raises several questions. One question is whether the desired output of petrochemical products could be obtained from a smaller volume of raw materials, which in turn would produce a lesser amount of motor fuel. We have not been able to examine the details of the proposed facility, but assume that the government will review this aspect closely. This part of the problem, however, is of secondary importance.

Another company already operating in Puerto Rico has recently declared its intent to complete a substantial expansion of an existing refinery. Since Puerto Rican demand can probably absorb very little of the increased product output from either of these ventures, it seems likely that product movements to the United States will turn upward sharply unless the present ineffective control system is modified. In addition, free access to the Continental United States will attract other refiners to Puerto Rico. Since it would be most inequitable and discriminatory for the Federal government to grant import allocations to some Puerto Rican projects while denying allocations to others, the final result would be the undermining of the import control program and of the domestic petroleum industry.

Clearly, restraint of some kind must be exercised by our government. It is imperative that immediate steps be taken to assure mainland refiners that their normal markets will not be subject to unfair competition from a flood of finished products derived from low-cost foreign crude.

Unless there is some change in the control program, the resulting damage to our country's producing industry will be substantial. The harm will be the same as if cheap foreign crude oil were imported in large quantities directly, without having been passed through Puerto Rican refineries. Of equal concern is the fact that the mainland refining industry will be subject to constant instability and upheaval in its markets as refiners with large supplies of low-cost products in the Commonwealth dispose of them wherever possible.

We believe, therefore, that direct controls on all movements of petroleum products from Puerto Rico to the Continental United States should be imposed. There is no thought here of limiting any refining ventures or expansions in the Commonwealth, but merely of limiting the flow of products from Puerto Rico into the mainland.

Such control can be applied readily by incorporating all Puerto Rican refiners into the regular U. S. crude and unfinished oils import program to the extent that such refiners compete on the mainland. The portion of each Puerto Rican refinery's throughput used to manufacture products marketed

in the Continental United States would be combined with the individual company's mainland runs, and its import quota would be calculated according to the prevailing import regulations as applied to the combined total. Such a system would permit inland refiners to continue running100 per cent foreign crude for meeting local and foreign export demand, but would require them to obtain crude through the same channels available to any other refiner for purposes of supplying United States markets.

In summary, we would like to emphasize that we are not opposed to any project that will provide substantial benefit to the Puerto Rican economy. At the same time, we believe such projects should be economically justifiable on the basis of their own merit. There is no reason for the mainland petroleum industry to subsidize an otherwise uneconomical venture in Puerto Rico.

Thank you.

CHAIRMAN MOORE: Does anyone have any questions?

I believe there are none.

I have none.

Thank you very much, sir.

... MYLAR: Thank you.

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CHAIRMAN MOORE: Socony Mobile Oil Company, Inc.

I believe Mr. Barney Templeton is here.

STATEMENT OF MR. BARNEY TEMPLETON, MANAGER
PURCHASES, SALES AND IMPORTS,
SOCONY MOBILE OIL COMPANY, INC.

MR. TEMPLETON: Thank you.

Mr. Moore and Mr. Snodeker, my name is Barney Templeton. I am Manager of Purchases, Sales and Imports for the Socony Mobile Oil Company, Inc., New York.

I am here today on behalf of my company. I would like to express our appreciation for the opportunity to present our views on the oil import program in Puerto Rico.

It is late, and I will be brief.

We do not import crude oil in Puerto Rico. We do conduct a marketing operation there, and we are vitally interested in any developments that may affect the Islands' welfare and the prospects for an additional investment.

For these reasons, we definitely support the import regulations that are conducive to Puerto Rico's continued economic development. Such regulations, however, must be fair and equitable for all -- not piecemeal solutions to isolated problems.

There are two points regarding Puerto Rican imports that we believe should receive careful consideration at this hearing and on which we feel corrective action is long overdue.

First we urge that provision be made to allow newcomers to share in the Puerto Rican import quota for crude and unfinished oils. As things stand now, essentially two refiners in Puerto Rico -- those operating in 1958 -- enjoy a monopoly position relative to imports of crude and unfinished oils into the Commonwealth. We feel that this monopoly is inconsistent with the American free-enterprise system and is not in Puerto Rico's long-term economic interest. Although my company recognizes the necessity for protecting the historical importer, we think it is totally impracticable for such protection to be rigid and never-ending. When Mandatory Controls were first promulgated, we supported the provision for newcomers to share in U. S. crude oil allocations, even though this meant sacrificing part of our quota as an historical importer. We still support this principle.

We do not believe that Socony Mobile, and other companies in similar positions, should be penalized because of a double standard which prevents newcomers being eligible for quota in Puerto Rico, even though they build a refinery. Certainly, those companies having bona fide "on island" product demand should be eligible for crude and unfinished oil quota adequate to fulfill their needs.

Second, we urge -- strongly -- that the import program be overhauled to (1) provide that finished product flow from the island of Puerto Rico to the U. S. continental mainland

be included in total Districts I-IV finished product allocation and (2) permit newcomer participation in Districts I-IV finished product allocation just as is done relative to crude and residual fuel oil.

Finished products from Puerto Rico to the continental mainland is just as significant a part of the oil import program as is finished product importation from any offshore source. This flow of products has been pointed to by some as a "loophole" in the present program. To expand this "loophole" by providing special treatment to cope with yet another isolated situation, would in our opinion, be grossly unfair to all concerned.

In summary, we submit that these adjustments would bring the regulations in line with the intent of the Presidential Proclamation for fair and equitable treatment of all qualified companies. Also, we submit, they would provide all companies with a realistic basis for evaluating the investment opportunities and risks so necessary to assure an expanding Puerto Rican economy.

Thank you, Mr. Chairman.

CHAIRMAN MOORE: Does anyone have any questions?

Thank you very much, Mr. Templeton.

Next will be the Independent Petroleum Association of America, Mr. L. Dan Jones, General Counsel.

STATEMENT OF L. DAN JONES, GENERAL COUNSEL
INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

MR. JONES: Mr. Chairman, in view of the hour, if my statement could be incorporated in the record, I will endeavor to summarize it.

CHAIRMAN MOORE: Yes, indeed.

MR. JONES: Thank you.

We feel that the current level of imports into the Continental United States is too high and should be substantially reduced, and as you know Mr. Chairman, we have been urgently and rather consistently, seeking such a reduction.

As a result and in conformity with that position, we would be opposed to any action in this proceeding or any other proceeding which would lead to an increase in imports in the United States, regardless of the source, including increases in the shipments from Puerto Rico..

As a part of our overall policy that imports should be reduced, the Association has a specific policy with respect to shipment from Puerto. It is a two-fold one.

First, that the import program should be administered in such a way as to prevent any increases in shipments from Puerto Rico into the Continental United States, and

Second: that non-residual shipments from Puerto Rico to the Continental United States should be included within the 12.2 ratio, governing the total imports of the District's I-IV.

With respect to the establishment of a petrochemical complex in Puerto Rico so as to encourage the economic growth in the Commonwealth, we would of course, have no objection whatever to that objective provided that it can be accomplished without adversely affecting the national security objective of the program, and in disrupting the effectiveness of the program; and in order to preserve the integrity of the program, we feel it is vitally important that any actions that you may take to prevent any increase in the shipments from Puerto Rico into the United States.

I would like to submit and leave with you two recommendations, carrying out these policy positions of the Association.

(1) Any actions taken with respect to the import program, as it relates to Puerto Rico, be in full conformity with the Presidential proclamation which limits shipments of petroleum from Puerto Rico into the United States to the 1958 level, and in addition, that the Administrator recommend that such shipments from Puerto Rico be included within the 12.2 ratio.

That generally summarizes our position.

(The full statement of Mr. L. Dan Jones is as follows)

My name is L. Dan Jones. I am General Counsel of the Independent Petroleum Association of America (IPAA) a national association of oil and natural gas producers, including land and royalty owners, from every petroleum producing area in the United States.

The announced purpose of this hearing is to receive testimony on all phases of the mandatory oil import program as it relates to Puerto Rico. This involves both imports into Puerto Rico and shipments from Puerto Rico into the Continental United States. It is necessary, therefore, to consider not only the program as it applies to Puerto Rico but also the resulting effects on the overall import program.

The IPAA feels that the current level of imports into the Continental United States is too high and should be substantially reduced. Availalbe evidence shows that there is a crisis in the domestic oil producing industry. Exploration and drilling continue to be seriously depressed. Prices continue to erode in the face of increasing costs. Reserves are being depleted in the face of increasing demands. The trained labor force of the industry is shrinking. In summation, the strength of the domestic petroleum industry, and particularly that of the independent producer, is being seriously weakened.

The national security objective of the mandatory program is a healthy and vigorous domestic industry capable of meeting the Nation's petroleum emergency requirements. The industry is not healthy and vigorous and it continues to deteriorate. The funds and incentives needed to restore healthy conditions are not now available. It is widely recognized throughout the industry that a primary factor in these depressed conditions

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is continued excessive imports. We therefore, would be opposed to any action which would result in increased imports whether from Puerto Rico or any other source.

The voluntary import program in effect from 1957 to March 1959 which requested oil importers to limit their imports voluntarily, was limited to imports into the Continental United States and did not cover imports into Puerto Rico. During the period of voluntary controls, shipments of refined petroleum products from Puerto Rico into the Continental United States increased rapidly as follows:

Puerto Rican Shipments of Oil Products to U.S.

(Thousands of Barrels Daily)

	Residual	Other Finished Products	Total
1956	1	2	3
1957	1	4	5
1958	10	18	28
1959	12	26	38
1960	11	24	35
1961	13	30	43
1962	10	30	40
1963	15	30	45

As pointed out above, the voluntary program did not cover Puerto Rico and as a result, it became apparent that this omission provided a "loop-hole" by which oil could be imported into Puerto Rico, converted into finished products and shipped

to the Continental United States without restriction. As a result, the mandatory program brought Puerto Rico within the area of control so as to close this loop-hole. This experience under the voluntary program shows that it is vitally important now to reopen this loop-hole if the integrity of the program is to be maintained.

The Presidential Proclamation 3279 dated March 10, 1959, which established the Mandatory Oil Import Program, treats specifically with Puerto Rico. The controlling provision is Section 2 (d) which reads as follows:

"The maximum level of imports of crude oil, unfinished oils, and finished products into Puerto Rico shall be approximately the level of imports into Puerto Rico during all or part of the calendar year 1958, as determined by the Secretary of the Interior to be consonant with the purposes of this proclamation, or such lower or higher levels as the Secretary may subsequently determine are required to meet increases or decreases in local demand in Puerto Rico or demand for export to foreign areas."

Under this provision, imports into Puerto Rico are controlled but shipments of finished products into the United States from Puerto Rico are not subject to allocation.

The purpose of this provision of the proclamation is to limit shipments from Puerto Rico to Continental United States to the level that prevailed in 1958. The proclamation,

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however, permits imports into Puerto Rico to be increased in order to (1) meet local demand or (2) for export to foreign areas but not for increased shipments to the United States. It is essential to maintain this policy. Otherwise, the loophole that existed under the voluntary program would again permit increased shipments into the United States in conflict with the objective of the program.

Under the proclamation and the implementing regulations, the Administrator of the Oil Import Program is empowered to review the petroleum requirements for Puerto Rico from time to time and to make recommendations to the Secretary of the Interior that the level of imports be increased or decreased as may be required to meet increases or decreases in local demand in Puerto Rico or in demand for export to foreign areas.

Pursuant to this authority, imports into Puerto Rico have been increased under the program from some 84,000 barrels daily to some 114,000 barrels daily, an increase of approximately 30,000 barrels daily. When converted to crude oil equivalent, this overage is materially greater, and when added to other leakages in the program becomes a matter of concern.

The policy position of IPAA is that the current level of imports into the United States is excessive. To implement this policy, we have been urging with all the earnestness and vigor at our command that the level of imports be substantially reduced. We would be opposed, therefore, to any actions which

would result in increased imports into the United States, whether from Puerto Rico or any other source.

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As a part of our overall policy with respect to imports, the Association also has a specific policy position with respect to shipments from Puerto Rico into the United States.

In May 1961, the Association adopted a policy position with respect to Puerto Rico to the effect that the program should be administered so as to prevent increases in shipments from Puerto Rico into the Continental United States.

This policy position of the Association has been repeatedly reaffirmed since that time and is included in an official statement adopted by the Association on October 29, 1963, copy of which is attached. This position is in full accord with the Presidential Proclamation which limits shipments from Puerto Rico to the Continental United States to the 1958 level. We strongly support the strict maintenance of this policy.

In addition to supporting the policy of preventing increases in shipments from Puerto Rico, the Association on May 5, 1964, adopted a further policy position, copy attached, to the effect that non-residual shipments from Puerto Rico to the Continental United States should be included within the 12.2 ratio. This position was taken because of the critical need to reduce total imports into the United States and to more effectively stabilize the program. Inasmuch as the announced purpose of this hearing is to receive testimony on all phases of the program relating

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to imports into Puerto Rico, we take this opportunity to urge that in addition to maintaining the present policy of preventing increases in shipments from Puerto Rico to the Continental United States that such shipments be included in the overall limitation on imports into Districts I-IV permitted under the 12.2 ratio.

The announcement states that the hearing is called as a result of representations from the Economic Development Administration of the Commonwealth of Puerto Rico pointing out the unfavorable economic outlook of Puerto Rico and the stimulus to continue economic growth in the Commonwealth that could be provided by establishment of a petro-chemical complex by Phillips Petroleum Company. Encouragement of the economic growth in the Commonwealth is obviously desirable provided that it can be accomplished without adversely affecting the national security objective of the Mandatory Oil Import Program which is to maintain a healthy and vigorous domestic petroleum industry. If the integrity of the program is to be maintained, loop-holes and leakages which have been revealed through the five years' experience under the program should be closed and certainly no new ones should be created. It is vitally important that any actions taken as a result of this proceeding assure that imports of petroleum into Puerto Rico will not result in increased shipments from Puerto Rico into the United States.

It is recommended that (1) any actions taken with respect to the import program as it relates to Puerto Rico be in full conformity with the Presidential Proclamation which limits shipments of petroleum from Puerto Rico into the United States to the 1958 level and (2) in addition, that the Administration recommend that such shipments from Puerto Rico be included within the 12.2 ratio.

Statement on Imports by the Independent Petroleum Association of America in their Midyear Meeting,

New Orleans, Louisiana

May 5, 1964

There is a crisis in the domestic oil industry. The independent producer is in a desperate situation. Both the industry and the independent producer must be preserved for the security of our country.

This is the eighth year of declining trends in exploration, drilling, employment and rates of return in the domestic industry. Proved reserves of crude oil have been reduced in three of the last five years.

Most critical, oil prices continue to erode. Crude oil price cuts are widespread in the face of increasing costs. In short, the independent producer is being liquidated.

Positive action is needed. The objective of the Government's mandatory import program is a healthy domestic industry. The industry is not healthy. Imports are excessive and must be re-

duced to encourage the necessary development of U. S. oil and gas supplies.

The Independent Petroleum Association of America calls upon Government of the United States to take prompt action to accomplish:

(1) A substantial reduction in total imports through changes in the Mandatory Import Program, including:

(a) A decrease in the 12.2 relationship to a ratio no higher than existed prior to the declining trends in the domestic industry. (Reduction of 100,000 - 150,000 barrels daily.)

(b) Inclusion within the allowable relationship of all non-residual imports such as shipments from Puerto Rico, bonded imports of distillate fuel, and bonded imports of jet fuel for commercial use. (Reduction of about 50,000 barrels daily.)

(c) Elimination of non-residual imports for military use, with a corresponding reduction in total imports. (Reduction of about 30,000 barrels daily.)

(d) Elimination of estimating procedures by basing import relationships on actual production during prior periods. (Reduction of about 20,000 barrels daily.)

(2) Use the full capacity of all pipelines from other domestic areas in determining available supply in setting import allowables; create incentives for additional District V

production, additional movements from Districts I-IV, and new pipelines into District V; and eliminate excess shipments from District V to Districts I-IV as a part of the demand on which District V imports are based. (Immediate reduction of about 30,000 barrels daily and more in the future.)

(2) Action by the Department of Defense to divert to the United States the purchase of at least 100,000 barrels daily of light petroleum products now being procured by the military in foreign areas, and deduct those purchases not diverted from allowable imports.

(3) Other necessary improvements in the import program, including:

(a) Base the quantity of overland imports on certifications from importing companies, rather than estimates by the Interior Department.

(b) Phase out imports of light finished products that are unnecessary and should be supplied by domestic oil.

(c) Eliminate the importation of unfinished oils which developed as a means of circumventing the voluntary import program.

(d) Progressively reduce historic import allocations until eliminated, and continue to allocate to all refiners in the interest of equity.

The Association dedicates itself to fight for a fully effective oil import program, and urges the support of all

domestic industry. There is no security without adequate U. S. oil and gas supplies.

Statement on Imports by the Independent Petroleum Association of America at their Annual Meeting, Dallas, Texas

October 29, 1963

The Government's mandatory oil import program has been in effect almost five years. Without an import program there would have been complete deterioration of the domestic producing industry. The program, however, has not accomplished its basic objectives of maintaining a healthy domestic industry, capable of supplying our future peacetime and emergency requirements.

By every measure, exploration and development in the United States have continued to decline. Exploratory crew activity has been reduced by more than 50 percent. Wildcat wells show a decrease of more than one-third. The number of rotary rigs in operation has decreased by more than 40 percent. There has been a decline of about 25 percent in the total number of wells completed per year in the United States. Employment and earnings in domestic petroleum production are down substantially. There have been serious adverse effects on the economy of the oil producing states.

Imports are a major factor affecting the health of the domestic petroleum industry. In order that the import

program achieve its basic objectives, the Independent Petroleum Association of America makes the following recommendations:

(1) The ratio of imports (excluding residual fuel oil) in Districts I-IV should be reduced. For five years under the import program these imports have been generally stabilized at a relationship between 12 and 13 percent of domestic production. The continuing declines in U. S. exploration and drilling are clear evidence that imports have been at an excessive rate in relation to domestic production. Reductions in this ratio should be made so that a proper balance is reached that will encourage the necessary expansion of U. S. petroleum resources.

(2) The level of District I-IV imports (excluding residual fuel oil) should be based on actual domestic production during the corresponding period of the previous year - as was done under the program for the first half of 1963 - rather than the present method of using estimates of future production.

(3) The quantity of overland imports for each allocation period should be based on certifications from importing companies, rather than estimates by the Interior Department.

(4) Finished petroleum products now being imported into the United States for military uses should be supplied from domestic sources.

(5) Pending proposals to exempt the asphaltic content of imported crude oil should be rejected as an unnecessary action that would undermine the import program.

(6) The District V program can be improved and strengthened. Present excess shipments to District I-IV that serve to increase imports by increasing demand should not be included in the calculation of District V demand for import quota purposes. Calculation of supply should be based on the full availability of domestic supplies from all U. S. areas, including the maximum capacity of pipelines into District V. The program should serve to encourage the expanding use of domestic oil produced in District V and should operate so as to increase the movement of oil from other domestic areas of oversupply into this deficit area.

(7) Imports or withdrawals from bonded warehouse for fueling commercial aircraft should be included within the maximum allowable import level. These imports, particularly jet fuel, have been increasing.

(8) Imports of light finished products are unnecessary and should be supplied by domestic oil. These imports should be phased out of the import program.

(9) In the interest of equity, imports should continue to be allocated to all refiners, and historic allocations should be progressively reduced until eliminated.

(10) All actions to circumvent the intent and purpose of the oil import program should be opposed, including:

(a) Misclassification of imports as "overland" when tankers are used from foreign sources.

(b) There should be no provision for the importation of unfinished oils which developed as a means of circumventing the voluntary import program.

(c) The import program should be administered so as to prevent increases in imports of light finished products from Puerto Rico.

The Association is gravely concerned as to the rapid expansion of natural gas imports. These imports constitute a potentially serious threat to the markets for both domestic oil and domestic natural gas. The officers of the Association are directed to maintain close surveillance of this problem in order that the Association may pursue policies that will prevent excessive expansion of gas imports relative to domestic petroleum production.

These recommendations are designed to serve the best interests of national security through the maintenance of a healthy, expanding domestic petroleum industry.

CHAIRMAN MOORE: Thank you, Mr. Jones.

Does anyone have any questions for Mr. Jones?

(None)

CHAIRMAN MOORE: We now come to the concluding company. The Tidewater Oil Company. Mr. J. G. Jiminez, Vice President of Tidewater Oil Company.

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STATEMENT OF MR. J. G. JIMINEZ, VICE PRESIDENT

TIDEWATER OIL COMPANY

MR. JIMINEZ: Mr. Moore, Mr. Snedeker. I am last and I will make it short.

We are pleased to have this opportunity to submit our comments on the matter under present consideration.

Tidewater Oil Company is opposed to the Phillips Petroleum Company petition to import 50,000 barrels-per-day of additional unfinished foreign petroleum stocks into Puerto Rico as input raw material to the proposed petrochemical facility.

It is Tidewater's view that importation of additional stocks from foreign sources for the Puerto Rico plant is detrimental to the health of the refining and production segments of the Petroleum Industry in the United States. Further, Tidewater Oil Company feels that such importation of foreign stocks is unnecessary to the production of petrochemicals in Puerto Rico as refining capacity for the foreseeable future in the Continental United States is more than adequate to provide the 50,000 barrels-per-day charge stocks for the facility proposed by Phillips.

It is Tidewater Oil Company's understanding that half the volume, roughly, 25,000 barrels-per-day of stocks of foreign origin proposed by Phillips for importation into Puerto Rico will find its way into Districts I-IV markets in the form or motor gasoline. Thus, in effect, Phillips Petroleum Company is

petitioning for an incremental Districts I-IV product import license of 25,000 barrels-per-day. Tidewater Oil Company feels such a sizeable increment of gasoline imports into the United States would give Phillips Petroleum Company a special and unfair competitive advantage as such imports would tend to reduce the requirements for gasoline manufactured from domestic crude oils by other refiners and thus reduce the participation of domestic crude oils in the total raw material processed for satisfaction of domestic United States petroleum product demand.

In summary, it is Tidewater Oil Company's opinion that the Oil Import Administration should deny the Phillips Petroleum Company's petition for importation of foreign material into Puerto Rico. With the denial of the petition under review here today, and if Phillips were to use domestic crude oil and U. S. refining facilities in satisfying its charge stock requirements for the proposed plant, benefits would accrue to the economy of the United States including that of the territory of Puerto Rico and would be in accord with the objectives of the oil import program.

Thank you very much.

CHAIRMAN MOORE: Thank you, Mr. Jiminez.

Are there any questions?

I believe there are not.

According to our records, we have now heard from everyone who has made a request to be heard.

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Does anyone else care to make a presentation, an oral presentation, at this time?

This is your last chance, gentlemen.

The taking of statements is now concluded.

I believe the facts and views so ably presented here today will be very valuable and will help us all to a better understanding of the Puerto Rican situation. I appreciate your all being here, and letting us have the benefit of your views.

I believe I mentioned a moment ago, earlier in the hearing, that the transcript will be available for inspection in Room 7215 in the Office of Information.

Also, I believe I mentioned that anyone desiring to purchase copies of the transcript may obtain it from the Miller-Columbian Reporting Service, 931 G Street, Northwest, Washington 1, D.C. The telephone number there is METropolitan 8-1405.

Let me again remind you gentlemen that we will accept written statements or comments up until the close of business on August 14. They should be addressed to the Administrator of the Oil Import Administration.

Are there any other questions, or does anyone wish to be heard?

If not, I declare the hearing adjourned.

(Whereupon, at 5:40 o'clock, p.m., the hearing was adjourned.)

J-56, Supplemental Statement of EDA, August 24, 1964

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SUPPLEMENTAL STATEMENT OF RAFAEL DURAND, ADMINISTRATOR ECONOMIC DEVELOPMENT ADMINISTRATION COMMONWEALTH OF PUERTO RICO IN THE MATTER OF OIL IMPORTS INTO PUERTO RICO

On July 31, 1964, a public hearing was held before the Oil Import Administration of the United States Department of the Interior to consider the operation of the U. S. Oil Import Control Program as it relates to Puerto Rico. As the first hearing witness, the Economic Development Administration welcomes this opportunity to comment on the proceedings in general and on the presentations of other witnesses in particular.

The Economic Development Administration appreciates the good will shown towards Puerto Rico by many witnesses at the hearing who wished Puerto Rico well in its efforts to develop its economy. In this effort it is our view that establishment of the proposed core chemical complex is vital.

Objections to the Phillips project, whose approval we regard as essential, appear to be centered on the allegedly adverse impact on the domestic oil industry.

Presidential Proclamation #3279 determined in March 1959 that the Puerto Rican petroleum industry is dependent on the importation of crude and unfinished oils. Because unfinished oils are a basic economical source of modern chemicals, the development of a chemical industry in Puerto Rico will also depend on such imports.

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With respect to oil import quota increases for Puerto Rico it should be recognized that between October 1960 and January 1964 the Economic Development Administration neither sought nor endorsed increases in crude oil import quotas for Puerto Rico.

Since its establishment in 1950, the Economic Development Administration has been concerned with the development of core industries. Since 1961 intensive efforts have been made by this agency to develop the chemical industry in particular. Several of the corporate witnesses in the hearing of July 31 are aware of this massive effort and have made proposals to this agency. All proposals received by the Economic Development Administration were judged on the same criteria; only Phillips has responded to the requirements of Puerto Rico as we see them.

Phillips has fully documented a long-range program that promises employment for an estimated 100,000 people. These potential economic gains pose the fundamental matter of equity between the governments of Puerto Rico and of the United States.

In its evaluation of the Phillips' proposal we are confident that the Department will consider these prospective substantial economic gains in relation to the incidental and probably negligible impact of increasing motor fuel shipments from Puerto Rico to the continental United States in amounts which are a small fraction of the average annual increases anticipated in Mainland consumption.

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Phillips has formally committed its corporate resources directly to the government of Puerto Rico through this agency, and indirectly to the Oil Import Administration. Phillips has committed itself to use its best efforts to create employment, to stimulate investment, and to assist in the EDA's plans for decentralized satellite operations. Phillips is the only company which has committed itself to provide a practical solution to a difficult problem for Puerto Rico. Such an effort deserves and has Puerto Rico's wholehearted support. This agency, charged with the basic responsibility for generating gainful employment has received, even at this late date, no comparable proposal from any other company or group of companies.

The following comments will serve to amplify this statement, as well as to clarify, we hope, the representations of those participants at the hearing who have, by their testimony, indicated some misunderstanding of our present and future economic, employment, and security problems.

Certain statements and inferences in the record are misleading concerning the nature of Puerto Rico's association with the United States. Puerto Rico is not, as the record states (p. 139), an "unincorporated territory" of the United States. Nor is it, as the record implies, a foreign country.

In the matter of Puerto Rican shipments to the U. S., there are numerous references in the record to Puerto Rican "exports" to the U. S. with the consequent connotation that Puerto Rico is a foreign country. One does not

use the word "exports" in referring to the movement of goods between two states. Similarly, it is inappropriate to use the word "exports" when reference is made to movement of goods from Puerto Rico to any of the states.

The Commonwealth of Puerto Rico is a unique body politic with autonomous self government consistent with the terms of its association with the United States, as defined in the Constitution of Puerto Rico and the prior enabling legislation (P. L. 600 of the 81st Congress of the United States), an association recognized most recently in the 1964 "Status Commission" legislation (P. L. 271, 88th Congress). The constitutional status achieved in 1952, through the effective exercise by the people of the Commonwealth of Puerto Rico of the right of self-determination in a free and democratic way, was recognized by the General Assembly of the United Nations on November 27, 1953. The late President Kennedy's July 25, 1961 Memorandum for the Heads of the Executive Departments and Agencies, concerning the Commonwealth of Puerto Rico, may be relevant in this respect, and is appended as Appendix A.

Turning now to the matter of U. S. Oil Import Controls as such, my prepared remarks contained the following statement: "It was specifically in recognition of the absence of known deposits of oil and gas that Presidential Proclamation #3279 found our petroleum industry to be dependent on the importation of crude and unfinished oils." (page 18, first full sentence).

Therefore, the control regulations established in 1959 made Puerto Rico an importing district, wholly separate from Districts I - IV. Since the control program was established, some exploratory work, including drilling, has been done in a search for oil and gas. This work has been fruitless. Therefore, Puerto Rico's fundamental circumstance is the same today as it was in March 1959. Thus, Puerto Rico's status under the control program must continue to be that of a wholly separate importing district.

This separate importing status has not meant, does not mean today, and will not mean in the future that Puerto Rico is a "haven", a "loophole", a "back door", as is alleged in the hearing record. Quite the contrary is the case.

Prior to the establishment of controls, representatives of the Economic Development Administration had numerous discussions with the first administrator of the U. S. Oil Import Control Program. While we realized that imposition of controls would be a deterrent to our industrial development, as has undoubtedly been the case, we also conceded during these discussions that omission of Puerto Rico from the control system would indeed create a loophole. Thus, distinctive control regulations were applied to Puerto Rico.

During the hearing, allegations were made that Puerto Rico has been granted allocations in violation of existing regulations. This simply is not so.

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Since March 1959, the two existing refineries have received quota increases aggregating to date 31,094 b/d. Parenthetically, I wish to note that since I became Administrator of the Economic Development Administration in February 1961, quota increases to the two refineries have amounted to 24,360 b/d; these increases were neither sought nor endorsed by the Economic Development Administration.

Since 1958, Puerto Rico's base year for import control purposes, we estimate that local demand for petroleum products has increased in an amount no less than the total, cumulative Puerto Rican crude oil allocation increase since March 1959. Presidential Proclamation #3279 provides, among other things, that Puerto Rico shall be entitled to quota increases reflecting increases in local demand. Thus, control regulations have not been violated since the quota increases granted to Puerto Rico have not been in excess of the growth in local demand for petroleum products.

Looking to the future, just as was the case in 1958-59, Puerto Rico would not knowingly seek a position within the import quota system which would pose a threat to the national security objectives of the United States Oil Import Control Program. I would recall in this connection that statement in my prepared remarks which reads as follows: "I cannot appropriately speak directly to this question (the national security objectives of the United States Oil Import Control Program)...." (page 19; first full sentence).

strengthen our industrial diversification effort. Additionally, currently existing production capacity is substantially in excess of effective local demand.

Most of this production in excess of local demand has been and continues to be shipped to the Mainland. I wish to refer in this connection to that statement in my remarks which reads as follows: "Our progress to date, it should be acknowledged, is the result not only of the rising productivity of the Puerto Rican worker but of the nature of Puerto Rico's association with the United States which has facilitated Puerto Rico's development, making possible the free movement of people, goods and capital between the island and the continent." (page 8; second paragraph; last full sentence; emphasis added).

But for the fact of this free movement of goods there would probably be no petroleum refining industry in Puerto Rico today. The initial plans of both existing companies were based on the shipment of relatively substantial product volumes to the Mainland. These plans in turn reflected the structure of local product demand. The structure of that demand was, and remains, quite different from that in the U. S. Specifically, the product in greatest demand locally, and by a wide margin, was and continues to be residual fuel oil. Local demand for distillates will always be small. Hence, refinery economics dictated a relatively substantial volume of light product movement to the U. S. This, of course, had to be qualified upon the establishment of import controls.

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Presidential Proclamation #3279 recognized the particular structure of local product demand by making provision for "limited shipments" of Puerto Rican-refined petroleum products to the U. S. The construction we have put upon this language in the Proclamation was and is that such shipments shall not be "unlimited". That is, as was noted earlier, the level of such shipments should not rise to a point such as to undermine the Districts I - IV control system. However, we would resist, as was suggested during the public hearing, the imposition of direct quantitative controls on the shipment of Puerto Rican-refined products to the U. S.

This matter has arisen in the past, and it is our understanding that the Department lacks the necessary authority to impose such controls. Our concern, however, is not with legal technicalities but with matters of policy fundamental to Puerto Rico's continued economic growth.

The exercise by the Department of the control system regulating Puerto Rican imports has, we would suggest, worked satisfactorily to date. Supplanting this system with one regulating Puerto Rican product shipments would, we suggest, be basically no more efficient than the present control system and, additionally, would, we are certain, inflict incalculable damage on Puerto Rico's economic growth prospects.

Petroleum products are not the only so-called "sensitive" items in the U. S. economy which are produced in Puerto Rico and sold in the U. S.

There are many others. To place direct quantitative controls on shipments of Puerto Rican-refined products to the Mainland would be to breach the nature of Puerto Rico's association with the United States and to place Puerto Rico on the "Procrustean bed" of ever-increasing restrictions on its commerce with the United States. Could there be any more effective documentation of the charge made by Premier Khrushchev, in the United Nations General Assembly in 1960, that Puerto Rico was a "colony" of the United States?

I will now turn to another policy matter. During the public hearing the petroleum industry in Puerto Rico was characterized as a "monopoly". In the technical jargon of economics this is not correct; the existing situation is that of duopoly. But in the matter of desirable public policy this is a distinction without a difference.

The "freezing" in perpetuity of the existing crude oil import system - limiting the market to two companies with 1953 importing histories - is inherently unhealthy and hence undesirable. Sound public policy dictates that the existing duopoly be ended.

Related to this matter of eliminating the existing duopoly is the issue raised in the public hearing that the breaking of the duopoly by the granting of a quota to Phillips alone would be "inequitable". Our understanding of this matter of equity as it was raised during the hearing was that it had three facets.

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One facet was that the granting of a quota to Phillips alone would discriminate unfairly against the other holders of import tickets in Districts I - IV. The equities here involved, whatever they may be, are not a matter of proper concern to the Economic Development Administration.

A second facet of "inequitability" relates to the allegation made in the public hearing that the import control system subsidizes the Puerto Rican refiner at the expense of the Mainland refiner. An examination of recent comparative earnings demonstrates that this allegation is without foundation.

Ten companies spoke in varying degrees of opposition to the Phillips proposal on July 31. During recent years eight of these companies have registered substantial increases in earnings per share; only two of the companies have shown declines recently in earnings per share (see Appendix B). By far the largest decline was that registered by Commonwealth Oil. This earnings record effectively refutes the allegation of "subsidy". Additionally, bid prices for shares of U. S. oil company stocks during the first half of 1964 further demonstrate that petroleum refining in Puerto Rico has not injured, as alleged in the July 31 hearing, the profitability of Mainland oil companies. Quite the reverse is the case; note, for example, the first half of 1964 earnings record of the Sun Oil Company described by the New York Times as having been "spectacular" (New York Times, August 22, 1964, p. 26; see Appendix C).

The third facet of "inequitability" concerned the several marketers in Puerto Rico who do not have import quotas. It was suggested that these companies should be qualified to import to the extent of their positions in the local product market. Our opposition to this suggestion is unqualified.

First, we have no responsibility for and no interest whatever in the matter of who elects and who does not elect to market in Puerto Rico.

Second, and the matter of substantial concern to us, is that acceptance of this suggestion would have the practical effect of diluting the quota increase request which we have endorsed among a number of companies to the detriment of our industrialization effort.

We have endorsed without reservation the quota application of the Phillips Petroleum Company as stated on July 31 in my prepared remarks: "I appreciate this opportunity to register my government's wholehearted endorsement of the pending application of the Phillips Petroleum Company." (page 6; second paragraph).

The fundamental matter of equity in this proceeding lies between the United States and Puerto Rico; not as among the several interested oil companies. These companies, both those now with and those without operations in Puerto Rico, had the same opportunity as did Phillips to undertake commitments to the Commonwealth Government. During the past three years

the Economic Development Administration has discussed petrochemicals proposals with a number of firms including several which appeared in opposition to the Phillips application on July 31. None of these proposals promised substantial benefits to the economy of Puerto Rico and, as I stated in my prepared remarks: "...we feel that the Phillips' proposal offers the best answer to the needs of Puerto Rico as we see them." (page 18; last full paragraph).

Testimony was offered in the public hearing to the general effect that Puerto Rico is now "affluent"; has enjoyed a rapid rate of economic growth during recent years; has excellent prospects for continued rapid economic growth; and hence approval of the Phillips proposal is not essential to achievement of Puerto Rico's economic objectives.

A general remark seems here in order before proceeding to an evaluation of the point noted immediately above. Those without responsibility in matters of this sort are entitled to expressions of opinion; those such as myself charged with specific responsibility in those matters are entitled to express judgments.

In the matter of "affluence" the record is abundantly clear as was demonstrated in exhibit #4 (page 11): half of Puerto Rico's families have an annual income of less than $2,000.

In the matter of recent rates of economic growth, the record is also abundantly clear as was demonstrated in exhibit #1 (page 8): Puerto Rico's

total net income increased at an average annual rate of 5.6% during the 1950's; the comparable rate in 1962 was 9.3% and in 1963 it was 9.7%; per capita net income increased at an average annual rate of 5.0% during the 1950's; the comparable rate in 1962 was 7.3% and in 1963 it was 7.4%. These are rapid rates of growth as measured against any standard and we take pride in them.

But it is our job in the Economic Development Administration to look forward; not backward. Can the continuation of the high growth rates which are essential to achievement of our relatively modest family income goals be sustained in the absence of a redirection of our industrial diversification effort?

It is my considered judgment tha hey cannot.

The necessary redirection of our industrialization effort is underway; and, as stated in my prepared remarks, approval of the Phillips project is a vital element of this redirection "which we deem urgently necessary to meet and conquer the economic factors converging to threaten and challenge the industrial development and social well-being of our island". (last sentence, third paragraph, page 6 of transcript).

We in Puerto Rico live in the "hurricane belt". The storm season has two basic phases: the hurricane "watch"; the hurricane "alert". During the hurricane "watch" those who are prudent take all possible precautions to protect life, limb, and property against the flashing of the hurricane "alert".

The economy of Puerto Rico is now in the hurricane "watch" stage because of the imminent convergence of the several factors noted during my appearance before the Oil Import Administration on July 31:

1. A population "explosion";

2. Rapidly rising production costs;

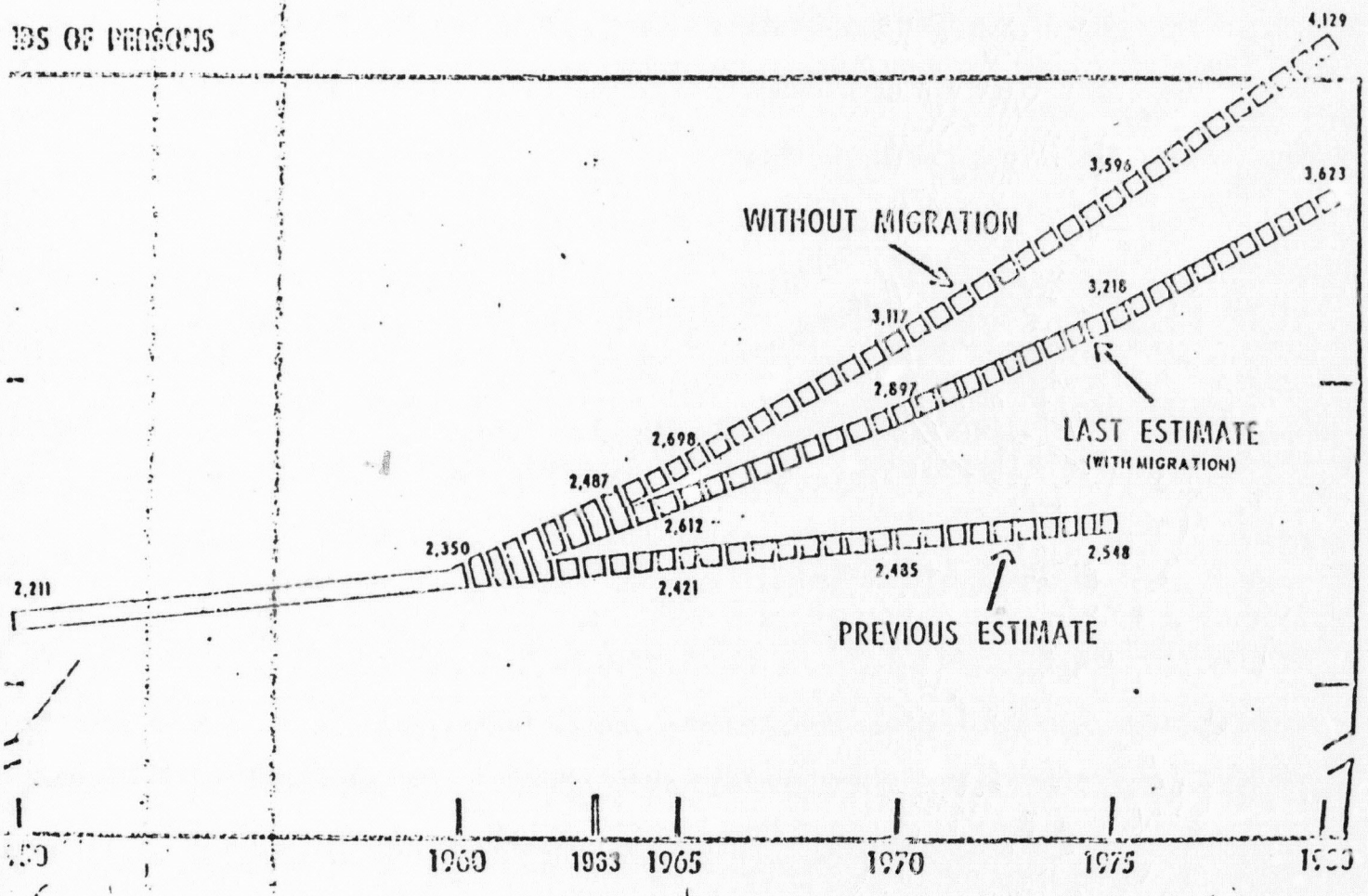
3. The prospective sharp reductions in the U. S. protective tariffs which now shelter significant sectors of our present "Operation Bootstrap" manufacturing output.

Puerto Rico's demographic prospects require careful and forsighted planning, as was documented in my prepared remarks (page 12). I think it pertinent to expand on the significance of the population "explosion" which I earlier characterized as imposing a challenge of serious proportions to continuing the notable achievements of our development efforts and to the realization of our income goals.

Population forecasting is a difficult exercise anywhere, involving separate analyses of three aspects of human behavior - fertility, mortality and net migration. In Puerto Rico this exercise is crucial and has proven to be a most frustrating one. In the past five years, we have been forced to re-work our population projections at least thrice, the elusive variable being that of net migration. In 1959, our forecasts, based on a net emigratory flow of 40,000 annually throughout the current decade, anticipated a 1970 population of 2,485,000;

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PUERTO RICO TOTAL POPULATION



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a level that has already been surpassed. Three years later, as it became increasingly evident that the migration premise was unrealistically high, our population forecasts were recomputed based on a level of 15,000 annually during the first five years of this decade, 20,000 annually for the period 1965 to 1975, and 10,000 during each of the following five years of the planning period.

Today, it seems highly probable that a more realistic forecast must be based on an assumption of no net emigration -- possibly throughout the entire planning period. This is apparent from observations of the continued decline in net emigration from Puerto Rico as depicted in exhibit #5 (page 12). It is also apparent, on the one hand, from the anticipated difficulties of the national economy in providing enough job opportunities in the foreseeable future to bring its unemployment level down to those which prevailed when Puerto Rican migration was at its recent peaks and, on the other, from the declining demand for unskilled workers in the U. S. labor market. Indeed, it is possible that Puerto Rico's development plans should anticipate a net reverse flow of migrants to its shores. If such were to be the case, "even the strongest of emergency measures", as noted by a May 1962 report of the Office of Economic Counsel of the Commonwealth's House of Representatives (see Appendix D, p. 72) "could not produce the 40,000 non-agricultural jobs needed each year to hold unemployment down to 100,000". The number of unemployed currently averages 80 to 90 thousand. "Under these circumstances" the report continues, "many people would be pushed back into subsistence agriculture and only emergency

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Federal Government assistance could provide for the many more who would be unemployed."

The following table illustrates the significance of the change in the migration outlook on the labor force for which jobs must be provided:

Year	Labor force (000's)	
	With migration	Without migration
1970	810.1	916.0
1975	925.3	1,082.2
1980	1,063.7	1,250.1

Realization of the employment goals outlined in my testimony (paragraph 2, page 10, of transcript) will require a marked acceleration in our present pace of job creation. Jobs in new plants must increase by some 9,000 annually; during the first four years of the decade, we succeeded in creating 19,400 net additional jobs - an annual average of somewhat less than 5,000.

But if job requirements were to increase in line with the labor force that can be anticipated with no emigration, an additional 175,000 jobs would have to be created before 1975, of which the industrialization program would have to provide roughly half - almost doubling the magnitude of the enormous task it already faces.

It is relevant to note that these projections assume that in 1975 Puerto Rico will still face an unemployment rate of roughly 11 percent. Such a rate is neither satisfactory nor acceptable to our government. This should be understandable since it is more than twice the national level which the U. S. administration has continually termed unsatisfactory.

Also, Puerto Rico has been experiencing one of the world's most rapidly rising wage levels (page 12). This means that we can no longer attract, as we did in the 1950's, substantial numbers of plants in low-wage rate industries. In fact, Puerto Rico's manufacturing wages are currently among the highest in the world, being exceeded, to the best of our knowledge, only by the states, Canada and Sweden.

Furthermore, the low-wage rate "light" industries attracted to Puerto Rico in the 1950's are now losing their tax exemption grants at an accelerating rate. It is, of course, impossible to predict the future management decisions of these firms.

In addition, these "light" low-wage rate industries are particularly vulnerable to the U. S. tariff reductions which will probably be made during the "Kennedy Round" of tariff negotiations. The Commonwealth Government has already advised the U. S. Tariff Commission and the Office of the Special Representative for Trade Negotiations that a significant segment of industrial employment is highly sensitive to duty reductions - reductions which furthermore

would not only jeopardize existing industries, but would also have adverse effects on the Commonwealth's "promotional potential", i. e. its ability to attract new manufacturing industries. (see Appendix E)

These factors, which could all contribute to a rapid increase in plant closings in Puerto Rico must be looked at in light of our related experience to date. Since the program's commencement 461, or 32% of the 1,419 plants established under its aegis, have permanently discontinued operations - over 50 percent of these in the last five years. Forty-one additional plants are currently inactive; while many of them may re-open in the months ahead, we are acutely aware of the fact that quite a number are in fact moribund. (The 1964 figure in the table below is therefore somewhat understated, since the true status of these plants as of the close of the fiscal year has not been fully established.) Over a third of the plants which have closed were in the textile and apparel industries; another 15 percent were in the miscellaneous industrial classification.

The number of plant closings during the past several years is given below.

Fiscal Years	Permanently discontinued operations during year
1953-1957 (ann. ave.)	23
1958	48
1959	43
1960	48
1961	60
1962	49
1963	48
1964 p.	29

It should be noted that our closing rates are quite adversely affected by cyclical developments within the U. S. economy, to wit the relatively high number of closings in fiscal 1961. Thus our concern over the adverse effect that any waning in the current extended period of economic expansion and prosperity of the national economy may have upon the Puerto Rican industrial community.

An economic hurricane "watch" is now in effect to guard against the factors that threaten to impede Puerto Rico's economic gains. We cannot afford the ostrich-like myopia of taking pride in past achievements, not seeing the gathering storm.

During the coming decade no less than one-and-a-half times as many new manufacturing employment opportunities must be created as were opened up during the past two decades.[1/] Approval of the Phillips proposal followed by peformance by Phillips is essential to attainment of this employment objective. I revert again to my initial statement:

"Fulfillment of these commitments (by Phillips) is expected to generate several hundred millions of dollars of new investment and consequently tens

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1/ The transcript reads (p. 10) ..."The development program must create... 116,000 net additional manufacturing jobs during the next decade. This is half as many direct manufacturing jobs as it has succeeded in creating since the start of Operation Bootstrap." It should read 100,000 rather than 116,000 net additional jobs which would be one-and-a-half times the number of jobs (65,000) currently existing in "Operation Bootstrap" factories.

of thousands of new employment opportunities in manufacturing." (page 20; first paragraph; first sentence).

As noted by the Phillips' witnesses, it is anticipated that total investment in the entire petrochemical complex, over a period of 10-15 years, will approach $800 million, with a direct employment potential of 33,255 (pages 39-40). We are aware that realization of this potential will not depend exclusively upon Phillips, but rather will call for a joint effort in which the development agencies of Puerto Rico will collaborate.

And, of course, the investment and employment directly attributable to this complex will have a beneficial effect on all other sectors of the economy: transportation, commerce, construction, services in general. As noted in my prepared remarks, our experience to date has indicated that on the average a single new manufacturing job will generate as many as two additional jobs in other sectors of the economy. (paragraph 4, page 17).

There is another dimension to the economic and social factors presently threatening progress which was not referred to in my oral statement. During the latter part of the 1950's, well before our population "explosion" was an established fact, the Commonwealth Government set population decentralization as a basic social goal. Puerto Rico's rising income levels during the 1950's generated a population "explosion" within the greater San Juan metropolitan area. Our attempts to reverse this trend in internal migration have not met

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with the required success; the current island-wide population "explosion" multiplies the dimension of the task.

The "satellite" plants which the Phillips project could and would attract would exert effective leverage in the direction of attainment of our objective of population decentralization. Because of physical and economic considerations we recognize that some of the "satellite" plants would have to be located in close physical proximity to the basic petrochemical core complex. But a majority of the "satellites" could, we believe, be scattered throughout the island thereby making a substantial contribution to our objective of population decentralization.

Could this objective of population decentralization and attainment of our family income goals be achieved within the present framework and limitations of Puerto Rico's existing petroleum industry? We do not think so.

We regard approval of the Phillips proposal as essential to avoidance of an economic contraction and essential to the later attainment of our economic objectives.

It is our considered judgment that existing industry will not undertake the immediate commitments essential to Puerto Rico's economic future.

The representative of one qualified crude importer testified that his company has no present intention of investing in any chemical facilities in Puerto Rico.

The representative of a second qualified crude importer, the Commonwealth Oil Refining Company, testified that his company has underway the construction of a basic petrochemical core complex. It is relevant to note that construction of this complex is not premised on those commitments currently of vital concern to Puerto Rico's development effort: reservation of 100% of basic chemical production for further processing in Puerto Rico; sequestration of earnings to be invested on the basis of minority equity participation to maximize the production of consumer goods in Puerto Rico.

The Economic Development Administration's fundamental responsibility is clear: it is to open up manufacturing job opportunities for scores of thousands of unemployed and underemployed Puerto Ricans. Approval of the Phillips proposal would contribute substantially to the discharge of this responsibility in a manner in which we feel Commonwealth's could not.

Mr. Casey testified (p. 156), in effect, that Commonwealth Oil developed the first projected aromatics plant for Puerto Rico and that "both plants" (Commonwealth and Phillips) are "pretty well" (p. 155) the same in concept.

Phillips announced its proposal to build a petrochemical complex in Puerto Rico in January 1964. Commonwealth's stated public intention to build an aromatics plant in Puerto Rico was announced in February 1964.

Prior discussions, in 1963 and earlier, between the Economic Development Administration and Commonwealth Oil concerning possible chemicals output by

the company were both vague and inconclusive. Commonwealth's plans, we feel, are still vague. We have yet to receive, for example, a flow sheet detailing what Commonwealth Oil plans to produce. However, more than half of Commonwealth's projected output of intermediates is committed on a long-term basis for off-island shipment. Such off-island movement would not contribute substantially to Puerto Rico's development effort.

We must question Mr. Casey's equation of the Phillips proposal and Commonwealth's project. Physical details apart, and we have yet to receive these from Commonwealth, the proposed initial investments of the two companies can and should be sharply differentiated.

What we have to consider, as initial steps, are two proposed aromatics plants. The record is replete with the detailed plans and benefits, guaranteed by written commitments, which development of the Phillips project would bring to Puerto Rico while comparable evidence in the case of the Commonwealth Oil project is not available.

Looking beyond the comparative initial investment plans of the two companies, I wish to re-emphasize that production of aromatics as such will not resolve Puerto Rico's problems.

The Phillips Petroleum Company has given, in writing, specific commitments to the Economic Development Administration. Behind these

commitments, as the record shows (p. 20), are sanctions which the Commonwealth Government will invoke should Phillips fail to honor its commitments.

Basically, these commitments undertaken by Phillips relate to two fundamental facts of Puerto Rico's economic prospects: Puerto Rico's lack of a raw materials base and its necessity for increased industrial diversification geared to maximization of consumer goods production.

The proposal of the Phillips Petroleum Company is addressed to these ends; the project of Commonwealth Oil is not.

In conclusion, I wish to re-emphasize the crucial importance which the Commonwealth of Puerto Rico attaches to the application before you. We view this application as one which is fraught with considerations and implications which far outweigh those normally involved in requests for increases in import quotas submitted for your consideration.

Puerto Rico's development effort must be markedly accelerated by achievement of a major industrial breakthrough which the Phillips proposal promises - a breakthrough which will permit us to overcome the serious economic and social difficulties that not only challenge Puerto Rico's continued economic growth but also threaten to jeopardize the gains realized to date.

It is for these reasons, advanced both above and in my testimony of July 31, that the Government of the Commonwealth of Puerto Rico believes

that prompt approval of the Phillips proposal is both decisive and essential, and thus urges your favorable action.

August 24, 1964

J-57, Supplemental Statement of Phillips, August 26, 1964

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UNITED STATES
DEPARTMENT OF THE INTERIOR

In The Matter Of Puerto Rican Oil Imports

Additional Comments Of Phillips Petroleum Company

On July 31, 1964, a public hearing was held by the Oil Import Administrator of the Department of the Interior to consider the operation of the Mandatory Oil Import Program as it relates to Puerto Rico. In particular the hearing considered testimony concerning the effect on the Puerto Rican economy which would result from the establishment of a large petrochemical industry on the island. In this regard representations had been received by the Department from the Commonwealth of Puerto Rico through its Economic Development Administration (EDA) pointing out the unfavorable economic outlook for Puerto Rico and the stimulus to continued growth in the Commonwealth that could be provided by the establishment of a petrochemical complex.

Testimony presented by EDA outlined the urgent economic needs of Puerto Rico and stated that over the past three years EDA has held discussions with several oil companies and chemical companies concerning the possibility of building a

petrochemicals-oriented core facility in Puerto Rico. (Tr. 16) According to Rafael Durand, Administrator of EDA, only Phillips Petroleum Company responded to the extent considered necessary to meet Puerto Rico's urgent requirements. (Tr. 16)

EDA also indicated its awareness of existing and prospective petrochemical and refining ventures in Puerto Rico and testified that the Phillips proposal offers the best answer to the needs of Puerto Rico as determined by the Commonwealth itself. (Tr. 18) Further, EDA viewed approval of the Phillips proposal as "crucial" for the future economic well-being of Puerto Rico. (Tr. 6)

In addition to the testimony presented on behalf of the Commonwealth, testimony presented by Phillips Petroleum Company set forth in detail the particulars of the proposed core complex, and indicated the results of marketing studies which led to the choice of the particular chemicals selected for production, viz., paraffinic fractions, cyclohexane, benzene, ethylbenzene, orthoxylene, and paraxylene. As well, Phillips

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1. The volume of petrochemicals to be produced by the core chemical complex will amount to 13,000 barrels per day for a percentage yield of 26 percent. This percentage yield for petrochemicals produced from select hydrocarbon fractions is several times larger than the yield derived from crude oil feedstocks.

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described the following commitments which had been made to Puerto Rico:

1. Phillips will invest a minimum of $45 million in the core chemical facility.

2. Phillips will utilize all profits from operation of the core chemical facility until an additional sum of $55 million is invested by Phillips for construction of satellite plants deriving feedstock from the core facility. If at the end of ten operating years sufficient profits have not been generated to provide the additional sum of $55 million, Phillips will invest $5 million a year each year after the tenth operating year until the total of $55 million has been reached.

3. Phillips will offer to invest a substantial portion of the additional $55 million in joint ventures where Phillips interest is in the range of 25 to 51 percent ownership.

4. Phillips will offer to Puerto Rican manufacturers the right of first refusal, at competitive prices, for any and all volumes of product yielded from the core chemical facility which otherwise would be sold outside Puerto Rico.

5. Phillips will use its best efforts, in cooperation with EDA, to induce chemical companies with which Phillips is associated to build satellite plants in Puerto Rico until such time as all petrochemicals produced by the core facility have been converted to consumer goods in Puerto Rico.

(Tr. 78-79)

Testifying to their agreement with EDA, a number of companies indicated they did not oppose improvement of the

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Puerto Rican economy (Tr. 90, 196,, and stated their agreement with EDA that a substantial stimulus to economic growth could be provided by establishment of a petrochemical complex on the island. (Tr. 148, 180) A good deal of opposition was heard, however, to the mechanics of the Phillips proposal for establishment of a petrochemical complex in Puerto Rico. Much of the testimony presented by the opposing companies is repetitious and therefore in meeting the arguments raised in opposition only a few points require comment and clarification. These fall in the following general categories.

A. National Security

Several witnesses indicated that approval of the proposed core complex should be denied on national security grounds. The question of national security is, of course, central to approval of the Phillips proposal and the Department must satisfy itself on this count. Our understanding of the Mandatory Oil Import Program, however, is that it is intended to maintain the national security in all its facets rather than to serve the forces of economic protectionism. Many of the

opponents of the Phillips project are clearly intent upon subverting the objectives of the control program to enable the program to serve their individual ends rather than the security of the Nation.

The Phillips project for Puerto Rico is not an ordinary request for an increased allocation. The Phillips request is unique and, as a result, the doctrinaire opposition which has been heard is simply inadequate. TIPRO, for example, wires that "project should be denied on grounds of national security, preservation of domestic producing industry, and equity for all company interests." IPAA says it has no objection to establishment of a petrochemical complex in Puerto Rico but indicates also that no increase in product shipments from Puerto Rico to the United States should be allowed. (Tr. 204-05) Such self-serving statements fail to recognize changing requirements of the national economy. Common sense dictates that a program controlling a major commodity such as petroleum and its products must be sensitive to the changing needs of the Nation.

The Phillips request is unique because it will provide substantial employment for Puerto Ricans at a time when Puerto Rico urgently needs this stimulus. The number of direct

employment opportunities estimated to be generated by the core chemical industry and subsequent downstream plants is 33,255. The estimated manpower requirements shown in Phillips Exhibit 3 are drawn in large part from Phillips direct experience in staffing its own plants. Thus the manpower estimates from the ammonia, olefin, urea, polyethylene, carbon black and the polyethylene fabrication plants are based upon manpower at plants presently operated by Phillips. Additionally, an examination of staffing requirements was made in plants of other chemical companies for the three stages of processing. Finally, these same estimates were cross-checked by competent consultants experienced in the various fields of chemical manufacturing.

Placing the entire matter in focus, the problem at issue is essentially this: The Phillips' project will contribute to the national security by the creation of an estimated 33,255 direct, high quality, employment opportunities and the creation of an estimated 66,000 indirect, community support, employment opportunities in Puerto Rico. Does the creation of employment opportunities for almost 100,000 people, at this period in the economic development of Puerto Rico, outweigh the possible

temporary inconvenience to major oil companies in Districts I - IV which might occur by reason of the marketing of 12,400 barrels per day of motor fuel on the East Coast and in Puerto Rico starting about two years after project approval and increasing to 24,800 barrels per day not later than six years after project approval? On the other hand, would the loss of these employment opportunities adversely affect national security? The following points are worthy of consideration:

1. The underlying authority for the mandatory program, the national security provision now a part of the Trade Expansion Act of 1962, has as a primary aim the "maintenance of a strong internal economy as an integral part of our national security."[2] This purpose is evident from section 232 of the 1962 act which provides that the President "shall further recognize the close relation of the economic welfare of the Nation to our national security . . . ."[3] The unique relationship

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2. S. Rep. No. 1983, 85th Cong., 2d Sess. 12 (1958).

3. That the principal consideration back of the national security provision was the maintenance of national security in its broadest sense is also evident from the House Report accompanying H.R. 12591 which states:

> [T]he national security amendment is not an alternative to the means afforded by the escape

between the United States and Puerto Rico underlines the need to consider the economic well-being of the island as clearly pertinent to determination of the question at issue.

2. According to releases of the Oil Import Administration imports of crude oil and oil products, excluding overland imports, averaged 1,830,437 barrels per day in the United States and Puerto Rico, during the first six months of 1964. In Districts I - IV, imports of crude oil and unfinished oils and finished petroleum products averaged 791,567 barrels daily for the six-month period; overland movements into Districts I - IV for the same period averaged 179,563 barrels daily. These volumes contrast with a volume stated in the Phillips proposal of 12,400 barrels per day beginning about two

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3. (Cont.) clause for providing industries which believe themselves injured a second court in which to seek relief. Its purpose is a different one -- to provide those best able to judge national security needs, namely, the President and the Director of the Office of Defense Mobilization . . . a way of taking whatever action is needed to avoid a threat to the national security through imports. Serious injury to a particular industry, which is the principal consideration in the escape-clause procedure, may also be a consideration bearing on the national security position in particular cases, but the avoidance or remedy of injury to industries is not the object per se . . . . The interest to be safeguarded is the security of the Nation, not the output or profitability of any plant or industry except as these may be essential to national security.

H. Rep. No. 1761, 85th Cong., 2d Sess. 13-14 (1958).

years after project approval and increasing to 24,800 barrels per day not later than six years after project approval. This volume of motor fuel, as indicated at the hearing, will be utilized primarily to satisfy expanding markets on the East Coast and in Puerto Rico.

The Phillips proposal will serve the national security (a) by providing a significant and substantial impetus to the economy of Puerto Rico without any significant impact on the control program, and (b) by enabling Puerto Rico to compete economically in the world markets for petrochemicals and consumer goods.

With reference to world markets, the rapid pace at which the Soviet bloc is expanding its capabilities in the production of petrochemicals and other chemicals should be noted. The commitment of the Soviet Union toward expansion of its petrochemical industry is well-known and is substantial. Recent events are illustrative. A July 16th announcement by Toyo Engineering Company of Tokyo indicated that agreement had been reached on the sale to the Soviet Union by Japan of the world's largest urea plant. As reported, the giant plant is to have a production capacity of 360,000 tons of urea annually. Sale of the

urea plant is reportedly the first contract to be concluded as a result of the May visit to Japan of then Deputy Premier Mikoyan during which the Soviet Union expressed its interest in ordering a number of plants valued at $350 million.

The Toyo Engineering firm, according to trade reports will also negotiate sale of a urea plant to Peking, the plant to have a capacity of 180,000 tons per year.

The trade press reports further that several East European bloc countries will supply chemical plants valued at over $1 billion to the Soviet Union to assist in expansion of the Soviet chemical industry.

Recent reports of activities among East European bloc countires have indicated that construction by Bulgaria of a large organic synthesis complex is now underway at Bourgas. The facility will include capacity for the production of 10,000 tons per annum of low-pressure polyethylene and 24,000 tons of high-pressure polyethylene later. Platt's Oilgram recently reported that Bulgaria is preparing to establish the country's second chemical center near Dolni Dubnik for the production of ethylene, propylene and other monomers.

Official Polish reports indicate an intention by that country to double the output of its chemical industry by 1970 with new types of plastics to be produced from petrochemicals including production of vinyl copolymers at Oswiecim and polystyrene copolymers at Plock.

In July, the Japan Steel Works announced the sale to Czechoslovakia of three units of high-pressure polyethylene pellet plants, deliveries to be made by 1965 for a plastic-synthetic rubber complex now under construction at Bratislava.

This brief statement of some of the very recent activity which has come to our attention indicates that, in addition to competition from the Soviet bloc in the supply of crude oil to free world markets, we may soon expect massive competition for free world markets in petrochemicals and consumer goods derived therefrom. Bold steps on the part of the government and industry are essential to meet such a competitive challenge. The Phillips project, planned to be the largest petrochemical complex of its kind in the Western Hemisphere, will serve the national security by providing strong competition in world markets for petrochemical products and consumer goods as well as by establishing a new environment for continued research and development.

economically feasible.[4]

C. No Unfair Preference to Phillips

It was argued at the hearing that the grant of a proposed allocation to Phillips would represent preferential treatment to a single company. This argument is grounded on a false premise. The fact is that EDA conducted discussions with a number of companies looking toward the establishment of a petrochemical core complex. In effect these were competitive negotiations carried on over a period of time. All proposals were considered on the same basis and the Phillips proposal was considered the only one capable of meeting the needs of Puerto Rico as determined by EDA. Certainly it cannot be argued that the company, having prevailed in what amounted to competitive negotiations by virtue of the merit of its proposal, is the beneficiary of an undue preference.

As stated before, the Phillips proposal provides a commitment of $100 million to Puerto Rico. Having undertaken such a financial commitment, as well as the other commitments made, it is difficult to understand how other companies can equate

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4. A question from the Chairman at the hearing of July 31 was directed to whether a trade zone operation had been considered by Phillips. The answer is inaccurately rendered at Tr. 85 and should be read as follows: "I would have to say no because I do not believe we can establish the type of project you are talking about in Puerto Rico on an economic basis if it were done in the trade zone."

themselves to Phillips so as to speak of the grant of an allocation as the grant of an unfair preference. If Phillips gains any advantage it will have done so at the risk of $100 million and it seems appropriate that those who risk large amounts of capital to create economic advantage should receive some advantage.

Finally, one company suggested that there be an overall increase in the level of imports with no particular company being favored. In what way this would meet Puerto Rico's problems was not described.

D. No Unfair Preference to Puerto Rico

The Phillips proposal has been criticized also for the reasons that it would increase product shipments to the mainland and would give Puerto Rico special treatment not being given to any individual state of the United States. It need only be said here that the Oil Import Administrator held a hearing to consider the unfavorable economic outlook for Puerto Rico and the stimulus to continued growth that could be provided by establishment of a petrochemical complex in Puerto Rico. The hearing was not held in order to venerate the past. Secondly, if special treatment is accorded Puerto Rico it might be noted that good and sufficient reason exists for such treatment. As stated by Mr. Durand at the hearing, Puerto Rico's 1962 per capita income was 75 percent

lower than the national average and only 50 percent of the lowest state. (Tr. 11)

E. The Phillips Project is Essential

An existing petroleum refinery in Puerto Rico, although indicating its willingness to welcome competition, has taken issue with the necessity for the proposed project by testifying to its own petrochemical plans. This refinery, Commonwealth Oil Refining Company (CORCO), thereby appears to challenge the judgment of EDA which has for many years -- and intensively for the past three years -- sought a means for the practical development of the chemical industry in Puerto Rico. Concerning its petrochemical plans for Puerto Rico, CORCO appeared to indicate that its project would require an allocation of 24,000 to 26,000 barrels per day of petroleum feedstocks (Tr. 149), that the CORCO project would produce "pretty much the same volumes" as the Phillips project (Tr. 155) and that CORCO "doesn't think" the new operation would considerably alter present CORCO product shipments to the United States. (Tr. 155) The disturbing feature of this testimony is simply that it appears from the record that an attempt was made to frustrate a real project by a number of vague statements about what might happen sometime in the future.

The fact is that Phillips has submitted its proposal to EDA and has further described the proposal in great detail at the hearing of July 31. The fact is that Phillips has made a commitment to spend $100 million to make this project work as well as to make full use of its scientific and technical experience and know-how and its world-wide marketing organization. The fact is that the CORCO project defies analysis because nothing has been presented for the record that can be analyzed. Certainly the record shows that CORCO has not given satisfactory assurances to EDA to meet the urgent requirements of Puerto Rico.

The suggestion that any of CORCO's capacity will be rendered surplus is groundless. Phillips had indicated it will enter the Puerto Rican market with a portion of the 24,800 barrels per day of motor fuel to be produced. The amount to be marketed in Puerto Rico, while not a large volume, might yet have a salutary effect on the unhealthy monopoly situation existing in Puerto Rico.

Additionally it is expected that the core complex will provide downstream customers for the existing refineries on the island. About 95 percent of plant fuel produced will be consumed by the core plant (TR. 88) and thus a substantial plant fuel requirement including residual fuel oil will exist for all plants constructed downstream of the core plant. Any residual fuel utilized by down-

stream plants might well reduce shipments to the mainland of that product.

With reference to feedstock sources, the Embassy of Venezuela in its aide memoire of June 5, 1964, expressed concern that feedstock for the core chemical complex might be derived from mid-Eastern or other Eastern Hemisphere sources. However, as noted by Mr. Learned at the hearing of July 31, the following sources of feedstock for the project were listed in order of their importance:

1) Direct purchases of low boiling fractions from refiners in the Caribbean area;

2) Direct purchases of low boiling fractions from refiners in other parts of the world;

3) Phillips sources in North Africa, Venezuela or other parts of the world.

(Tr. 29-30)

Accordingly, Venezuelan fractions will be utilized for the core complex if competitively available. It thus appears to Phillips that Venezuelan concern is no longer warranted.

Conclusion

The prominent position of Phillips Petroleum Company in petrochemical development and marketing makes it well qualified

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to assist Puerto Rico in the establishment of a petrochemical industry. The project outlined at the hearing of July 31, 1964, will provide substantial economic benefit to Puerto Rico while at the same time contributing to the national security. It is respectfully urged that the Department of the Interior grant its approval to the Phillips project for Puerto Rico.

August 26, 1964

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J-59, Statement of Secretary of the Interior Udall,
February 11, 1965

UNITED STATES E 803 Par.59

DEPARTMENT of the INTERIOR

★★★★★★★★★★★★★★★★★★★★★★★★★news release

OFFICE OF THE SECRETARY

Wood - 343-3171

For Release FEBRUARY 11, 1965

DECISION ANNOUNCED TO ESTABLISH PETROCHEMICAL INDUSTRY IN PUERTO RICO

Secretary of the Interior Stewart L. Udall today announced his decision to take action under the oil import control program to encourage a huge petrochemical complex to be established in Puerto Rico.

Secretary Udall has determined that the establishment of a petrochemical industry on the Island deriving its feedstocks from the Caribbean would not be inconsistent with the objectives of the oil import program. This determination was based on a careful study in the Department and on an examination of the record of a hearing on the matter of a proposal for the establishment of a petrochemical complex conducted by the Oil Import Administration on July 31, 1964.

Secretary Udall made the announcement in the presence of Commonwealth Governor Roberto Sanchez Vilella following a discussion of the basic economic situation in Puerto Rico.

Secretary Udall said that economic progress in Puerto Rico has been remarkable as a result of "Operation BOOTSTRAP" conducted by the Government of the Commonwealth. It is evident, however, that unless there is a fundamental shift in the nature of the economic development of Puerto Rico to the establishment of basic industries that are capable of affording greatly increased opportunities for stable employment on the Island, the Commonwealth will face serious economic difficulties and mounting unemployment in the relatively near future.

In recognition of the difficulties confronting the Island, Secretary Udall pointed out, officials of the Commonwealth have concluded, after extensive planning and research, that one of the most attractive possibilities from the standpoint of potential employment would be the establishment in Puerto Rico of the nucleus of a petrochemical industry. The existence of such a nucleus would make feasible the establishment of a broad range of satellite operations capable of utilizing a large labor force in the manufacture of products, including consumer goods, from petrochemicals.

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Today's announcement clears the way for the initiation of active negotiations leading to the establishment of a petrochemical nucleus.

In carrying out the decision Secretary Udall indicated initial consideration would be given by Department officials to a "highly promising" proposal by the Phillips Petroleum Company.

Phillips has made a concrete offer to the Commonwealth Government and to the Department of the Interior for the establishment of a petrochemical core facility. The Oil Import Administration has given careful consideration to this offer and last July conducted a public hearing on the matter. In light of the importance of developing basic industry in Puerto Rico, the Department will enter final negotiations with Phillips to ascertain whether a plan can be developed which will insure the building of a major petrochemical complex that will involve maximum economic benefits and maximum employment opportunities for Puerto Rico. In conducting these negotiations it was indicated that Interior intended to work closely with, and look for general guidance to, the Governor of Puerto Rico in making any final decisions concerning the Phillips Petroleum proposal.

If satisfactory arrangements can be made, it would be the Department's intention to allow petroleum import allocations to the successful applicant sufficient to provide feedstocks for the proposed complex. Any arrangements made, in addition to providing a stimulus to the Puerto Rican economy, would be consistent with the basic objectives of the mandatory oil import control program.

x x x

J-60, Letter, Durand to Udall, March 8, 1965

E806
(conformed copy)

March 8, 1965

The Honorable Stewart L. Udall
Secretary of the Interior
U.S. Department of the Interior
Washington 25, D.C.

Dear Mr. Secretary:

I believe it may be of interest to you for me to attempt to summarize the history of our efforts to promote a third, "non-conventional" refinery in Puerto Rico.

Rather than trying to provide you with a strictly chronological run-down of all our discussions with private interests in regard to the third refinery idea, I will simply touch on each case, giving a capsule resume of what transpired.

Our first formal discussion of a third, petrochemicals oriented refinery took place late in 1961 with PETROQUIMICA PUERTORRIQUENA, a locally incorporated firm organized by Messrs. John H. Gibbs, Jules Flescher (of Ferma Corp.), John C. Worthy (of Pipeline Welding & Construction Co.) and Albert J. Cella. Their original idea was to establish a refinery in a Foreign Trade sub-zone in Puerto Rico. After their retention of the services of Mr. J. P. Coan (Omega Management) and Mr. Oscar Chapman, however, the idea was changed to coincide with the establishment of a petrochemicals-oriented refinery. By early 1932 is became obvious that the Petroquimica group did not have the essential production and marketing know-how or adequate financing to see the project through.

Mr. Chapman and ourselves were in agreement, however, that the idea had merit and potential and that he would try to carry it out with firms that had already shown an interest, among which were MURPHY CORPORATION, PHILLIPS PETROLEUM and TEXACO.

Mr. Chapman later discussed the idea with Mr. Cordell Moore, of OIA, and spoke of it with several investment companies. Shortly thereafter we met with representatives of E. M. WARBURG and, as a result of our efforts to stimulate island investors, with INSULAR INVESTMENT CORPORATION.

E807-08
(conformed copy)

In May of 1963, MONSANTO CHEMICAL became interested, but, after some discussion with the firm, they decided that they were too busy with their Chocolate Bayou Project to consider a major operation in Puerto Rico.

In October of 1962, we were advised by Mr. Chapman that PRUDENTIAL OIL, backed by E. M. WARBURG, KUHN and LOEB, McDONNELL & CO., and HEMPHILL, NOYES & CO. would undertake the petrochemicals project. In November they reported that PHILLIPS would provide the crude for a 60,000 b/d refinery and market the gas and oil end products and that they had discussed sale of petrochemical feedstocks with MONSANTO and CELANESE. Prudential's subsequent proposals, however, led us to believe that they would not see the project through and they were, in fact, merely acting as promoters and planning to sign a back-to-back contract with Phillips. Advised as to the unsatisfactory nature of their proposals, Prudential asked if we had any objection to their trying to interest any of the firms with whom they had been discussing the matter. We had no objection and, as a result, Phillips came directly into the picture.

Two other firms, UNION TEXAS OIL and ASHLAND OIL, were turned down by us when they requested exclusive options on the project. Granting such exclusive options we felt would not be in the best interest of Puerto Rico. Later, in November of 1963, Ashland submitted a proposal that also proved unacceptable because it provided that an insubstantial percentage of their raw materials would be converted into petrochemicals -- and this did not fit in with our prime interest in an unconventional, petrochemicals -- oriented refinery. In February of 1964, Ashland said they expected to obtain the interest of companies that might purchase their petrochemicals output, but we never heard from Ashland after this.

In November of 1963, interest in the project was expressed by Mr. Richard Manning (former legal counsel for COMMONWEALTH OIL) who stated he represented an investment group. Several meetings with Mr. Manning, however, failed to provide us with sufficient information with which to evaluate his plans and the matter was not carried further.

Our discussions with Caribbean Refining and Gulf Oil Corporation concerning possible manufacture of petrochemicals in Puerto Rico date back to 1962. In meetings in San Juan and in New York in May-June 1964 Gulf representatives stated that they could see no present possibilities for the manufacture of petrochemicals in Puerto Rico.

E809
(conformed copy)

Our negotiations with Jersey Standard, between November 1962 and September 1964, progressed well, while the company studied the project, until (on September 5, 1964) we were informed that the vital product they were considering was "too heavy" and that the project was dead. They later reported they were working on a chemical complex similar to Phillips', but that would supplement and not compete. This matter is still pending.

TEXACO's interest produced a preliminary proposal in May of 1963 and a revised proposal in August. The revised proposal was informally taken to OIA officials (the first EDA took to OIA), but proved unsatisfactory to us because it was too gasoline production-oriented. This opinion was conveyed to Texaco in December of 1963 and in January of 1964 they discussed with us another proposal for a strictly conventional refinery in Puerto Rico using U.S. crude.

On the company's initiative, without prior reference to us, Texaco publicly announced in February 1964 its intention to build a conventional refinery in Puerto Rico.

Let me note finally, that during the past four years general discussions were held with SOCONY and STANDARD of CALIFORNIA with regard to possible manufacturing operations on the island. These discussions, however, never directly entered into the matter of an unconventional petrochemicals-oriented refinery.

I am enclosing a memorandum for the record which amplifies the matters discussed above.

Sincerely,

Rafael Durand
Administrator

Enclosure

J-61, Memorandum, Durand to Udall, March 8, 1965

USA 330-476
(REV. 4-23-71)

J

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

61

FPI-NI—9-24-76-80M-4417

E 810

March 6, 1963

MEMORANDUM

TO : The Record

FROM : Rafael Durand

SUBJECT : The Puerto Rican Third Refinery Project

The following is a summary of contacts, discussions, reports, correspondence, etc., involving the Economic Development Administration and private interested firms and/or parties regarding the establishment of a third, petrochemical-oriented refinery in Puerto Rico.

1. The practical possibility of establishing a third, petrochemicals-oriented refinery in Puerto Rico was first brought up as the result of a proposal made by Mr. John H. Gibbs to the Economic Development Administration during the summer of 1961. (The Commonwealth Government interest in the third refinery predated this proposal, but the idea did not enter the realm of feasibility until (1) a proposal was made and (2) the Commonwealth Oil Refining Company appeared to have reached solvency, as it did in May of 1961.) Mr. Gibb's idea was to set up a refinery in a Foreign Trade Zone Sub-Zone and exchange gasoline produced in that

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refinery for residual fuel oil from Venezuela. Inasmuch as residual fuel oil was in short supply in the eastern United States, it was believed that it would not be difficult to obtain an import quota for the project.

2. Subsequently, Mr. Gibbs became associated with Messrs. Jules Fleischer (of Perma Corporation), John C. Worthy (President of Pipeline Welding & Construction Co.) and Albert Joseph Cella. This group contracted the services of Mr. Oscar Chapman and Mr. J. P. Coan (President of Omega Management) and then proceeded to change the original idea, proposing to study the possibility of establishing a third, petrochemicals-oriented refinery in Puerto Rico. On September 8, 1961, this group incorporated PETRO UNICA PUERTORRY UNIA under the laws of the Commonwealth and by the end of September submitted a proposal prepared by Universal Oil Products, Inc. On November 24, Mr. Coan wrote to EDA-COB Executive Director, J. Díaz Hernández requesting an official Commonwealth Government position on the proposal. An answer was sent by EDA Administrator, Rafael Durand on November 27, 1961.

3. Gulf Oil also entered the picture in 1961, with discussions between Guillermo Rodríguez of CARIBBEAN REFINING and Sam Van Hyning of EDA - San Juan. Dr. Alexander Lewis of Gulf visited Puerto Rico the following year. In May of 1964 Durand and Van Hyning met with Rodríguez and Kent Manning of Gulf in San Juan. They met again in June in New York

and the clear understanding at that time was that, because of marketing considerations, Gulf could not see its way to investing in a petrochemicals-oriented refinery in Puerto Rico.

4. In February of 1962 it became obvious that the Petroquimica group did not have sufficient financing and their project was dropped. However, Mr. Chapman, believing in the merits of the idea, indicated that he would try to interest other parties.

5. In early March Mr. Chapman informed the EDA representative handling Petroquimica that he had decided to form a new company to be headed by Mr. Bruce Brown. Chapman added that interest in the project had been evidenced either by or for the MONTECATINI COMPOSIMICA, PHILLIPS PETROLEUM and TENACO.

6. On May 1 and 2, 1962, Chapman, accompanied by Mr. Brown, met with Cordell Moore of the Oil Import Administration to make an informal presentation of their project. On May 18 Durand wrote to Chapman supporting the project.

7. During the latter part of May and through early June, 1962, Chapman spoke with several investment bankers trying to interest them in the project. On June 11, Díaz Hernández met with a Vice president of E. M. WARBURG & CO., investment bankers, who had developed an interest through Chapman's efforts. Later in the month Díaz tried to get various Puerto Rican investors to take a lead in financing the project. As a result, Jaime Wilson (INSULAR

INVESTMENT CORPORATION) discussed the matter with Chapman, but they were unable to reach an agreement.

8. In May of 1962, MONSANTO CHEMICAL showed interest in a petrochemicals project aimed at producing talc mined near in Puerto Rico. They were unable to obtain the necessary feedstocks from the existing island refineries, so Díaz Hernández advised them to talk with Chapman. A meeting took place on June 6, 1962, and Monsanto's interest in negotiating for all or part of their feedstock from the proposed project was confirmed. Later, Díaz Hernández suggested to Dr. Howard Lewis of Monsanto that his firm might take the lead in the whole project. As a consequence of this suggestion Durand and Messrs. Díaz Hernández and Van Hyning met in St. Louis in June 1962 with Lewis and other Monsanto executives. Some weeks later, however, Dr. Lewis advised that he had discussed the possibility with his superiors, but that they were unable to consider it because they were too busy with the Chocolate Bayou Project.

9. On October 22, 1962, a meeting was held between Chapman and representatives from E. M. WARBURG & CO., KUHN and LOEB, MCDONNELL & CO., and HEMPHILL, NOYES & CO. Also present were officers of the PRUDENTIAL OIL INSURANCE CO. Following this meeting, EDA were advised that the above mentioned investment companies would syndicate the project and that the front money would be forthcoming from Prudential Oil. Thomas B. Young, Operations Vice President of the

HOUSTON CHEMICAL COMPANY could be a project manager.

10. About this same time, mid-to late October, EDA learned that ASHLAND OIL and UNION TEXAS PETROLEUM CORPORATION (a division of ALLIED CHEMICAL) had shown interest in establishing a petrochemical complex in Puerto Rico. Ashland's interest was to remain confidential and all negotiations would be conducted by Julian Plosser (one of the original PETROQUIDA group) and Roland A. Wiley, Vice President of Ashland.

11. On October 24, 1962, Díaz Hernández met with H. D. Teverbaugh, Vice President of Union Texas, and their consultant, David Arkin of CHEMICAL PROJECTS ASSOCIATES, INC. In discussing the possibility of Union Texas making a proposal for the establishment of a petrochemicals complex in Puerto Rico, Mr. Teverbaugh explained that, inasmuch as the preparation of a proposal would involve an investment of $200,000 to $300,000, they would require a one-year exclusive option on the idea with the EDA. Díaz Hernández answered that this would be against the best interests of Puerto Rico and was, therefore, impossible.

12. On November 16, 1962, Díaz Hernández met for the first time with Edward Willey, President of PRUDENTIAL OIL, accompanied by representatives of E. M. WARBURG and KUHN and LOEB. Also present was Jack Cohn, President of OMEGA MANAGEMENT and another of the original Petroquimica group. They reported to Díaz Hernández that they

had entered into an agreement with PHILLIPS PETROLEUM, which would furnish the necessary crude oil for a 50,000 bbl refinery and market the gasoline and oil end products. They also reported that they had discussed the sale of petrochemical feedstocks with ALMAGTO and CELANESE.

13. On December 27, 1962, Nathan Shippee, Chairman of the board of PRUDENTIAL OIL, showed Díaz Hernández a proposal intended for presentation to the Oil Import Administration. By previous agreement, Prudential had agreed to pay for the services of a consultant to advise EDA on the proposal to be submitted. Prudential could recommend consultants, but EDA would make the final decision. Prudential recommended MALCOLM T. MCCANN, WALTER LOBO, and ARTHUR D. LITTLE. EDA, however, was not impressed by the proposal and Díaz Hernández advised them that EDA were of the opinion that Prudential was acting as a promoter while, in fact, planning to sign a back-to-back contract with Phillips.

14. On December 21, 1962, Díaz Hernández met with Roland Whealy, Vice President of Ashland, and Jules Flescher of Perma. Ten days later they requested a six-month exclusive option in order to have time to collect data and make a decision. Díaz Hernández advised Ashland verbally that an exclusive option was not possible.

On March 22, 1963, Whealy submitted the draft of a letter to be presented by EDA to the Oil Import Administration. Durand met with Whealy and Flescher on March 26.

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Several discussions followed and, on November 25, 1963, a proposal was submitted. This proposal proved unacceptable, inasmuch as only 15% of the raw materials were to be converted into petrochemical feedstocks. Wheatly explained that they would need long term commitment of feedstocks and was in turn advised that, unless they could interest the necessary users of petrochemical feedstocks their proposal, as submitted, would not be attractive for Puerto Rico.

On February 14, 1964, Díaz Hernández received a letter from Wheatley stating: "I expect to have several letters of expression within the next ten days from the interested participating firms." This, however, was the last word from Ashland Oil.

15. On November 4, 1963, Díaz Hernández received a letter from Richard Manning (former legal counsel for Commonwealth Oil) stating that he represented an investment group interested in exploring "the possibility of establishing another oil refinery in Puerto Rico for the purpose of supplying our established markets."

This letter was referred to Durand by Díaz Hernández. On December 7, 1963, Manning wrote another letter to Durand, explaining the idea in more detail, but this also failed to provide sufficient information in terms of objectives, principals, etc., and the matter was not taken up further.

16. On November 18, 1963, Díaz Hernández met with Reinaldo Reyo of ESSO STANDARD OIL. They discussed the possibility of Esso making a

proposal for the establishment of a third, petrochemicals-oriented refinery in Puerto Rico. Reyo advised he would talk with his superiors to determine if they would be interested in the idea.

The idea was acceptable to the Esso management and on December 8, 1961, Dfau Hernández met with John E. Hodson and Ericson M. Nelbert of Esso at their New York offices. They advised Díaz Hernández that a detailed survey was necessary.

On January 6, 1962, Hodson advised Paul Smith of EDA-NY that the Executive Committee had approved concept plans for Puerto Rico.

On March 12, 1962, Smith reported Esso had a task force in Coral Gables from their Dayton plant making a study of the proposed operation in Puerto Rico and that "highest level in International" had become very interested. On May 15, Smith reported that Esso was still preparing their study.

In December of 1962, Van Wyning was present at a meeting of representatives of several Jersey Standard subsidiaries. They discussed which subsidiary might handle an operation in Puerto Rico, but no conclusions were reached and a decision to study the matter was made.

On July 17, 1963, Smith reported: "John Hodson advised plans were going along pretty well and they are presently studying where to dispose of the output. Company is also waiting to see whether quota is granted to Phillips on July 1 as this may change whether they apply for quota as established on a local or sub-zone."

On September 8, 19[illegible], Wolfe reported "what project they (Texaco) were considering is too heavy.... This project is done."

On February 4, 1965, Wolfe reported: "Company is moving very rapidly and within a month expect to appraise Mr. Durand and others at Fomento to set forth plans for another great chemical complex like Phillips, except that it will supplement and not compete."

17. In May of 1963 TEXACO, represented by Henry Kyor (Vice President in charge of Latin American Operations) and Maurice Granville (Vice President in charge of petrochemicals) made a preliminary presentation which was not satisfactory due to its being too gasoline-production oriented. A revised proposal was submitted on August 27 and this proposal was, in turn, taken informally by Durand and Diaz Hernandez to Messrs. Moore and Snedecker of CIA. This was the first time MDA went to CIA with a proposal for a third refinery in Puerto Rico. This proposal, however, was still not acceptable, because it did not go far enough in the petrochemicals aspects, and this impression was conveyed to Kyor and Granville in New York in December of 1963 in New York.

In January of 1964 Texaco submitted another proposal for a conventional refinery in Puerto Rico, using U. S. crude. On its initiative Texaco publicly announced in February 1964 its intention to build a conventional refinery in Puerto Rico.

18. As stated previously, on December 27, 1962, PRUDENTIAL OIL INSURANCE presented the draft of a proposal to be made before the Oil

Import Administration. In March of 1975 Phil Hernández told Crockett that their presentation was not satisfactory and that they apparently did not have the "know-how", financing or marketing potential to make the project work.

They asked if EDA had any objection to their approaching any of the companies with which they had been discussing the project. Phil Hernández told them EDA had no objections and, subsequently, they contacted PHILLIPS PETROLEUM.

10. It should be noted that general discussions were also held during the past four years with SOCONY and STANDARD of CALIFORNIA in regard to possible manufacturing operations on the island. These discussions, however, never reached the phase of negotiations in the matter of the unconventional, petrochemicals oriented refinery.

Rafael Durand
Administrator

J-62, Letter from Learned to Kelly, March 8, 1965

PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

March 8, 1965

STANLEY LEARNED
PRESIDENT

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(ED. 4-23-71)

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-62

FPI-MI—9-24-75-FOM-4417

The Honorable John M. Kelly
Assistant Secretary, Mineral Resources
U.S. Department of the Interior
Interior Building
Washington, D. C.

Dear Mr. Secretary:

This letter refers to the negotiations conducted by you, attended by your associates and representatives of Phillips Petroleum Company on February 26th and March 4th, 1965, relating to Phillips request for authorization to import into Puerto Rico 50,000 barrels per day of selected hydrocarbon fractions for use as a charge stock for the establishment of a core petrochemical complex in Puerto Rico.

We have given very careful consideration to your analysis of our proposals and to the positions taken by the Department of the Interior with respect thereto during the course of these negotiations. As a result of this interchange of views and data, we are now prepared to reiterate the commitments which we made at the public hearing held on July 31, 1964, and, in addition thereto, we agree to certain additional commitments and modifications resulting from the negotiations, all as set forth below.

The following commitments were made in our proposal at the hearing held July 31, 1964, and they are hereby reiterated:

1 - Phillips Petroleum Company will invest a minimum of $45 million providing a core chemical facility capable of processing 50,000 barrels per day of unfinished oils to yield intermediate products.

2 - Phillips will utilize all profits from the operation of the core chemical facility until an additional sum of $55 million is invested by Phillips for construction of satellite plants deriving feedstock from the core chemical facility. If at the end of ten operating years sufficient profits have not been generated to provide the additional sum of $55 million, Phillips will invest $5 million per year each year after the tenth operating year until the total of $55 million has been reached.

3 - Phillips will offer to invest a substantial portion of the above-mentioned $55 million in joint ventures where Phillips' interest is in the range of 25 to 51 per cent ownership.

4 - Phillips will offer Puerto Rican manufacturers the "right of first refusal", at competitive prices, for any and all volumes of product yielded from the core chemical facility which otherwise would be sold outside of Puerto Rico.

5 - Phillips will use its best efforts, in cooperation with the Economic Development Administration of the Commonwealth of Puerto Rico, to induce chemical companies, with which Phillips is associated world-wide, to build satellite plants in Puerto Rico until such time as all petrochemicals produced by the core facility have been converted to consumer goods in Puerto Rico.

In addition to the commitments stated above, and as a result of our negotiations with representatives of the Department of the Interior and additional discussions with Officials of the Commonwealth of Puerto Rico, Phillips undertakes the following additional commitments and modifications of its proposal as presented in its testimony of July 31, 1964:

1 - The production of motor fuel from the core chemical facility shall be limited to a maximum of 49.6 per cent of the raw material charge and shall be further limited to a ceiling of 20,200 barrels per day.

2 - If agreements for the establishment of one or more satellite plants deriving feedstock from the core chemical facility and requiring investment of at least $10 million have not been executed within six months of the granting of the allocation to Phillips Petroleum Company, then Phillips will accelerate the investment in satellite plants referred to in paragraph number two of the original commitments by taking immediate action to invest the difference between the amount agreed upon at the end of six months and the sum of $10 million.

3 - In computing the amount of profit to be reinvested in satellite plants as set forth in paragraph number two of the original commitments, such profit is to be computed before allowance for retirement of debt principal.

4 - Implementation of the "right of first refusal" offered to Puerto Rican manufacturers, as set forth in paragraph number four of the original commitments, will be established on terms and conditions satisfactory to Phillips and to the government of the Commonwealth of Puerto Rico.

5 - Equity participation in the corporation which owns and operates the core chemical facility up to the amount of 25 per cent will be offered to Puerto Rican investors on terms and conditions satisfactory to Phillips and the Government of the Commonwealth of Puerto Rico. Phillips agrees that the corporation owning and operating the core chemical facility may, individually, or as a joint venturer, invest in one or more satellite plants. In instances where Phillips itself owns or may be a joint venturer in any

satellite plant, Puerto Rican investors will be offered equity participation up to the amount of 25 per cent of the interest available to Phillips and such investment also will be offered on terms and conditions satisfactory to Phillips and to the Government of the Commonwealth of Puerto Rico.

6 - It is anticipated that the core chemical facility will go on stream approximately eighteen months to twenty-four months from the date of issuance of the grant of allocation to Phillips. It is understood that Phillips will not utilize any portion of the allocation until actually required for start-up and operation of the core chemical facility. Subsequent to start-up of the core chemical facility, it is understood that only that portion of the allocation required to furnish charge stock to the core chemical facility will be utilized.

Phillips will proceed with due diligence to develop a program for the establishment of petrochemical industry in the nature of the program outlined in Phillips' exhibit 3 presented at the hearing of July 31, 1964.

In our negotiating session of March 4, 1965, you inquired whether Phillips would be prepared to bind itself by a legally enforceable obligation to make the expenditures pledged and, if so, in what form the company envisaged that the commitment would be made.

Phillips is prepared to bind itself by a legally enforceable obligation to make the expenditure pledged and adhere to all commitments made herein on the condition that Phillips is able to make satisfactory arrangements for a supply of feedstock suitable for the project. A period of not more than ninety days from the date of the Secretary's approval will be required for Phillips to determine whether satisfactory arrangements for feedstock can be made. As stated in our letter to Secretary Udall of January 6, 1965, we now anticipate that raw material for the project will come from Caribbean sources.

In further response to your question, we envision that Phillips Petroleum Company and the Economic Development Administration of the Commonwealth of Puerto Rico will enter into an agreement incorporating, inter alia, the terms and conditions set forth in this letter and will submit this agreement to the Department as soon as possible after the Secretary's approval. It is further anticipated, as enforcement of Phillips obligations, that the Secretary of the Interior would condition his approval upon Phillips' performance of the obligations and commitments entered into in this letter and that, in the event of failure by Phillips to fulfill its obligations and commitments, the Secretary would reserve the right to issue an order to show cause why Phillips allocation should not be revoked. Prior to the issuance of any such order, any alleged failure of performance by Phillips of its obligations and commitments shall be called to the attention of Phillips by the Department in writing whereupon Phillips shall be accorded an opportunity to demonstrate or achieve compliance with such obligations and commitment. Thereafter in the event of any dispute concerning proper performance of Phillips' obligations and commitments, the Secretary of the Interior shall accord Phillips a hearing with respect thereto.

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As indicated in the record of our negotiations, interest in the construction of satellite plants has developed sooner and in a larger degree than initially anticipated. In view of this fact, apart from the commitments and obligations referred to above, it is our present estimate that some of the second and third stage chemical processing plants can and will be constructed concurrently with the core chemical facility. As you will recall, it is our present estimate that within approximately thirty months from the grant of allocation, satellite plants, over and above the core chemical facility, representing an investment of approximately $79 million and employing approximately twenty-five hundred employees will have been established. These developments, however, depend in large part upon prompt implementation of our plans. I am sure you realize, therefore, that time is of the essence. We would be most appreciative of your immediate consideration of our proposal.

Sincerely,

J-63, 64 and 66: Statements of H. A. True and Sam H. Casey

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Statement
by
H. A. True, Jr., President
Independent Petroleum Association of America
before
Hearing on Mandatory Oil Import Program
Department of the Interior, Washington, D. C.
March 10, 1965

E 824

This statement is presented on behalf of the Independent Petroleum Association of America, a national trade association representing independent producers of crude oil and natural gas in all producing areas of the United States.

The purpose of this statement is:

(1) To review the basic objectives of the import program.

(2) To propose the establishment of an "Expansion Goal" for U. S. oil production through 1970, as a means of directing the broad course of the import program over the next several years.

(3) To assess the effects of the import program since 1959 in relation to its basic objectives and the attainment of the 1970 Expansion Goal.

(4) To recommend specific revisions in the import program, necessary to the accomplishment of proposed expansion of U. S. oil production.

Basic Objectives of Import Program

The basis for the Mandatory Oil Import Program, as stated by the President of the United States when he issued the Proclamation establishing the program early in 1959, is "the certified requirements of our national security which make it

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necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United Ststes."

The standards for measuring the health and vigor of the domestic industry were established after comprehensive study by the Government. A special Cabinet Committee concluded in its 1957 report that in order to care for necessary domestic consumption and to meet emergency needs, and if we are to know what our reserve potential is in this country, it is essential that we follow a policy which will encourage continuation of free enterprise exploration at a rate consistent with the demands of a growing economy. This report stressed that the time lag between exploration and production requires that we explore today for tomorrow's usuable reserves. Any other course, it concluded, will impair industrial expansion, availability of supplies for consumer use, and preparedness for an emergency. This led to the conviction that as a Nation we must pursue a careful, considered course that will permit reasonable imports and still stimulate a dynamic and vigorous exploratory and development effort in the United States.

The 1957 Cabinet Committee report stated that, unless a reasonable limitation of petroleum imports is brought about, it was believed that:

"(a) Oil imports will flow into this country in ever-mounting quantities, entirely disproportionate to the quantities needed to supplement domestic supply.

"(b) There will be a resultant discouragement of, and decrease in, domestic production.

"(c) There will be a marked decline in domestic exploration and development.

"(d) In the event of a serious emergency, this Nation will find itself years away from attaining the level of petroleum production necessary to meet our national security needs."

The necessity for limiting oil imports in the public interest has been recognized by Congress, the Executive Branch of the Federal Government and by the

industry. Two world wars, the Korean conflict, and the Suez and Cuban crises have confirmed that it is an essential security policy to maintain the U. S. position of strength as to petroleum supply by preventing dependency on remote and uncertain foreign sources.

In the event of a national emergency, it is essential to U. S. consumers that there be adequate oil and gas supplies at reasonable cost, both now and in the future. The low cost of imported oil may appear attractive, but excessive reliance upon it in the short run may put the Nation in a long-term vulnerable position. Imported supplies could be cut off in an emergency and might well be diminished by events beyond our Nation's control. This vulnerability could easily result in a much higher cost, or even in the unavailability, of oil to consumers.

In the public interest, oil imports must be limited to the extent necessary to assure that the discovery, development and availability of domestic oil resources keep pace with the expansion of national requirements, including the maintenance of necessary reserve capacities for emergency use.

The basic objectives of the oil import program, as reviewed briefly above, have remained the same under two Administrations and three Presidents. These objectives continue to be essential to our expanding society and national security. Restriction of oil imports is a sound national policy, established after long and careful study, as set forth in Appendix A.

Future Course of Import Program

To assure the accomplishment of the basic objectives of the oil import program, it is necessary to look beyond the next six-month allocation period. The problems involved in limiting oil imports and encouraging the development of domestic petroleum resources are inherently long-range.

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Short of a major disruption of oil supplies in the Free World, there is no evidence that the existing world-wide surplus of oil will be alleviated in the foreseeable future. Very substantial quantities of relatively low-cost foreign oil will continue to be available for importation into the United States.

The nature of petroleum exploration, development and production is such that operations are on a long-range basis. Capital investments to find and develop new resources amount to billions of dollars annually in the United States. These investments involve a high degree of risk and huge losses. In the case of successful ventures, capital is depleted over a long period of years. In addition, American companies invest hundreds of millions each year in their operations in foreign areas.

These characteristics require that the oil import program, as well as other national policies relating to oil and gas, be established on a long-range basis. The required capital investments will not be made under uncertain policies. Dependable policies are as necessary to operations in the United States as they are to oil operations in other nations.

It is strongly recommended, therefore, that the Government establish long-range goals that will serve as basic guide lines for national oil policies in general, and oil import policies in particular. These goals will provide a means of measuring the degree to which policies are serving the national interest, and will indicate the direction in which policies should be revised and adjusted from time to time.

Proposed Expansion Goal, 1965-1970

Specifically, it is proposed that an "Expansion Goal" of 10.5 million barrels daily be established for 1970 U. S. production of crude oil and natural gas

liquids, as pictured in the accompanying graphic chart. This goal is consistent with the projection of "Required U. S. Liquid Hydrocarbon Production to Meet Consumption," in the recent report by the Department of the Interior "An Appraisal of the Petroleum Industry of the United States, January 1965."

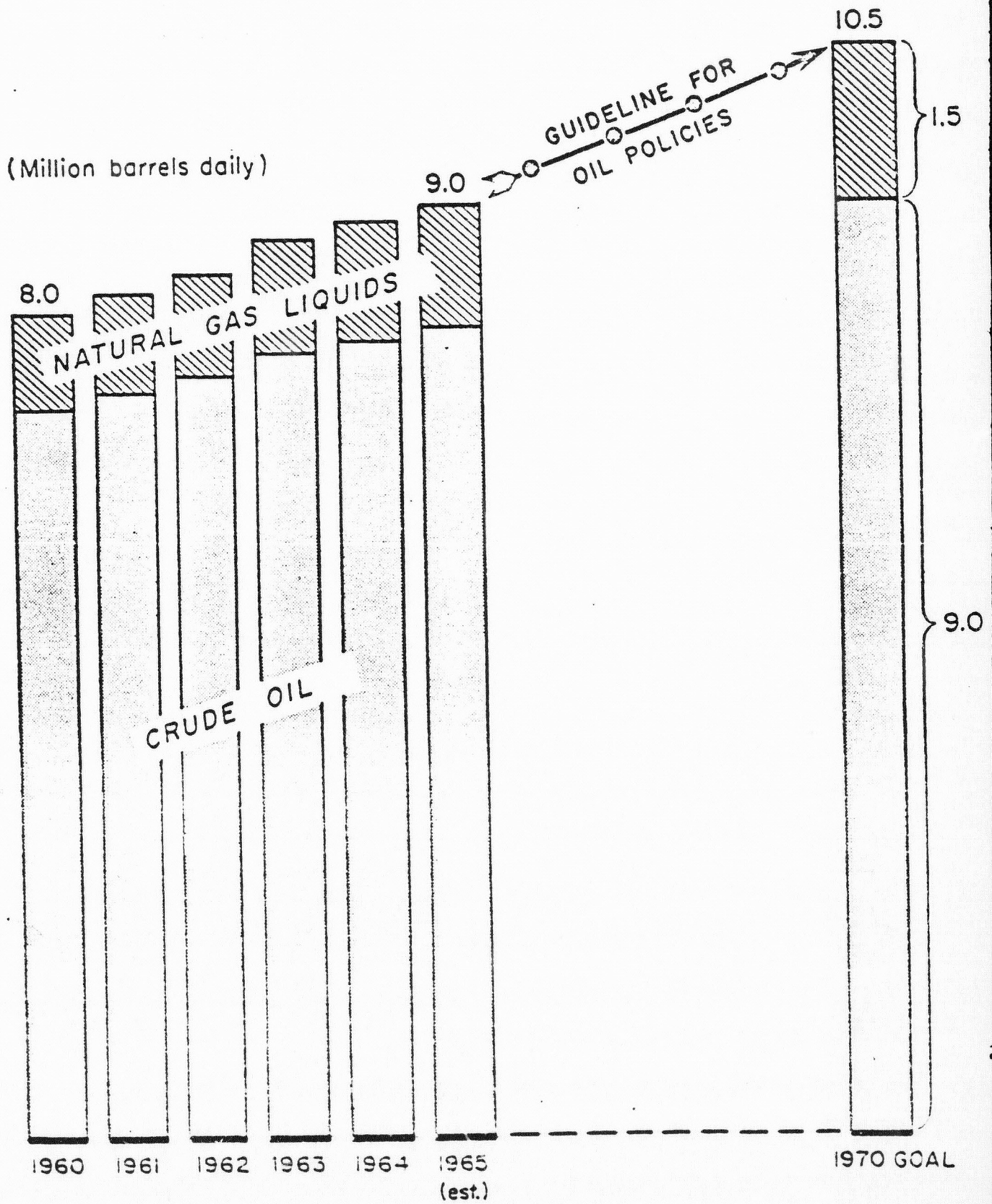
As shown on the chart, U. S. liquid hydrocarbon production has increased by approximately 1,000,000 barrels daily from 1960 to 1965. The "Expansion Goal" contemplates an increase of 1,500,000 barrels daily from 1965 to 1970 to meet growing national requirements. To meet this goal, domestic production would be increased by a minimum of 300,000 barrels per day per year over the next five-year period.

The purpose of establishing an "Expansion Goal" for U. S. oil production is to make it clear and definite that the Government deems it to be in the public interest that the petroleum industry accomplish this objective. The Government's role is to assure that national policies, including the oil import program, will provide the economic climate under which private industry will have an opportunity to reach these goals. Reaching the goals will be the task of the petroleum industry under the free enterprise system.

Parenthetically, it is suggested that our advancing society and the requirements of national security could make it advisable for the Government to establish "Expansion Goals" for other essential minerals. As correctly pointed out by an official of the U. S. Bureau of Mines, it is those Nations that have put their minerals to work that have enjoyed the highest standards of living. The use of minerals in general, and fossil fuel in particular, goes hand in hand with economic progress. There is a direct relationship, for example, between the per-capita use of energy and the national income per capita both within the United States and between the various nations of the world. Added meaning and purpose could be

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EXPANSION GOAL 1965-1970
U.S. OIL PRODUCTION



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given to national policies as to mineral development if long-range objectives were established by Government or guidelines for private industry.

Clearly, there are many factors involved in accomplishing the proposed expansion goal for U. S. oil production. Some of these factors are economic; some technical; and some political. Considerations of cost and price are vitally important. Shut-in producing capacity within the United States and surplus capacity abroad have a direct influence. Advancing technology, both in exploration and drilling as well as recovery techniques, will have a bearing on future developments. Governmental policies in the areas of regulation, foreign trade, taxation, public lands, and other matters constitute fundamental determinants. No one factor is controlling, but certainly oil imports directly affect the expansion of exploration, development and production of domestic petroleum resources.

To accomplish the proposed Expansion Goal of 10.5 million barrels daily of U. S. production by 1970 will involve the finding and development of a substantial volume of new reserves; the improved recovery from known resources; and the drilling of a large number of exploratory and development wells. Changing economic and technical conditions, including continuing improvements in state conservation programs, make it impractical to establish specific goals in terms of new discoveries, proved reserves, reserve-production ratios, or rates of drilling activity. Industry experience, however, has demonstrated that an expanded market provides the funds and the incentives to overcome both economic and technical difficulties. It is for that reason that a production goal is proposed as the most practical and meaningful guideline toward assuring the required availability of petroleum supplies.

To summarize the considerations involved in establishing the proposed "Expansion Goals" for U. S. oil production:

(1) The Government would insure that national policies,

such as the oil import program, were maintained so as to permit and not prevent the accomplishment of the goals by private industry.

(2) The industry would assume the full responsibility of coping with the economic and technical problems involved in accomplishing the goals.

Obviously, the 1970 production goal of 10,500,000 barrels daily can be attained only if imports are restricted to the levels necessary to accomplish that end.

Assessment of Mandatory Oil Import Program

After six years' experience under the Mandatory Oil Import Program, it is appropriate to assess its effects in the light of its basic objectives and the proposed "Expansion Goal" for U. S. production.

The oil import program resulted from a petition filed by the Independent Petroleum Association to invoke the authority of the national security amendment of the Trade Act. The IPAA vigorously supported the enactment and the strengthening of this security amendment in the Congress. The Association also vigorously urged action by the Executive Branch to exercise this authority to limit oil imports. Full support has been given to the Government's actions under this authority. The IPAA has consistently sought to maintain, improve and strengthen the program of restricting oil imports in the interests of national security.

On many occasions, we have called attention to the constructive and helpful effects of the program and commended the firm and objective administration by the Interior Department. Generally, revisions in the program have been sound, particularly the inclusion of overland imports within the total allowable imports

and the change in the relationship of imports to domestic production rather than demand for finished products.

Unquestionably, the import program has prevented irrevocable damage to the domestic industry. Undoubtedly, drilling and production levels have been higher than would otherwise have been the case.

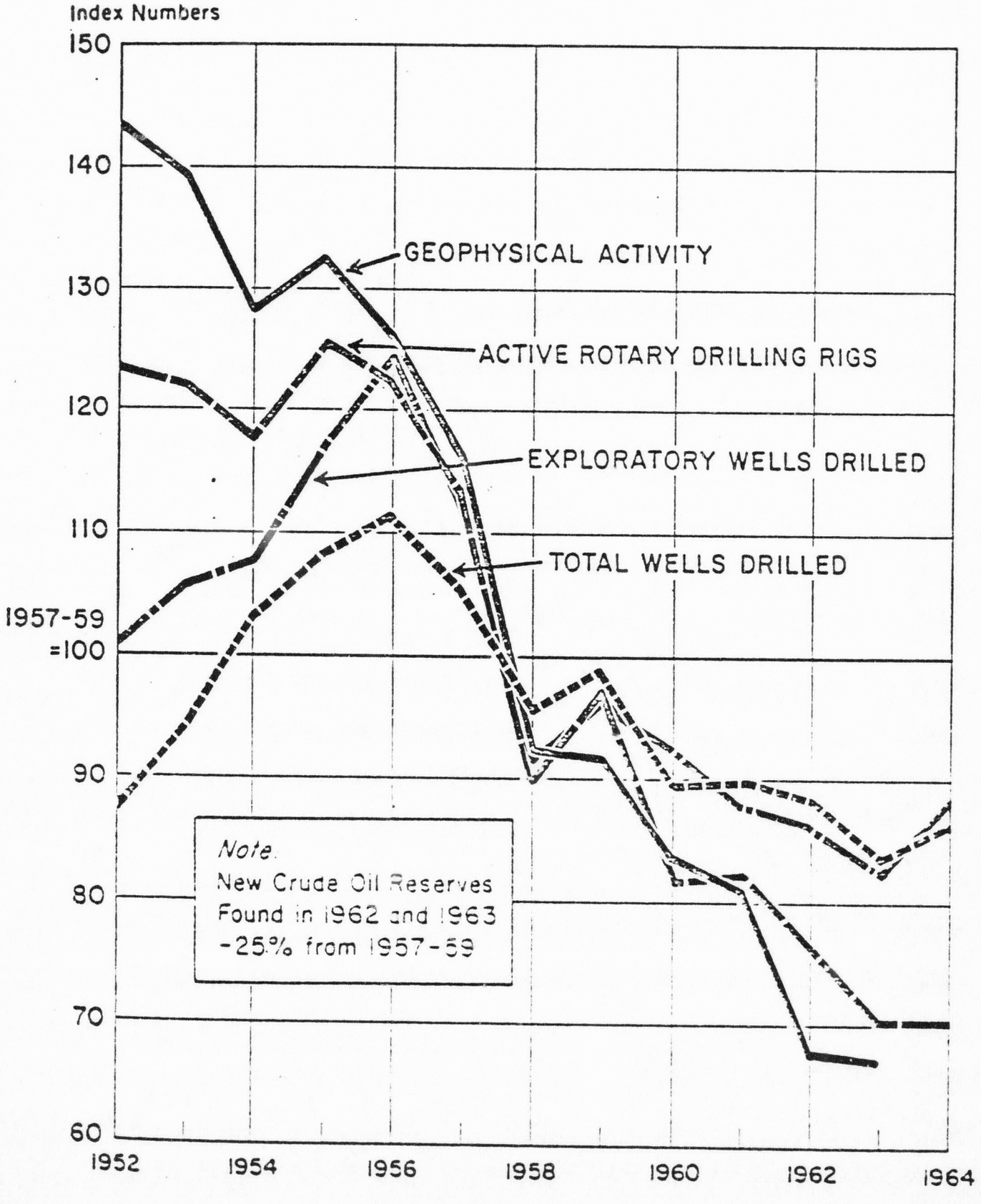
Despite the helpful influence of the import program, the declining trends and depressed conditions in the industry have worsened progressively. As shown in the accompanying chart, most of the major indicators of the industry's health and vigor are at very low levels relative to earlier years. These trends may be summarized as follows:

	Increase or Decrease Over Base Period 1957-59	
	Peak Reached During 1952-57 (percent)	Latest Year 1963 or 1964 (percent)
Geophysical Activity	+43.4	-32.9
Active Rotary Rigs	+25.5	-29.9
Exploratory Wells	+24 [illegible]	-11.6
Total Wells	+11.3	-13.5
Crude Oil Found	+13.7	-25.0
Total Oil Found	+16.6	-11.9
Employment	+ 3.1	-11.4
Crude Oil Price	+ 3.0	- 3.7

The decrease in crude oil prices has taken place in the face of steadily rising costs. For example, the cost of drilling in 1963 (the latest year for which data are available) increased by 8.1 percent over the 1957-59 level while hourly wages in 1964 rose by 15.6 percent. In an economy marked by steady advances in wholesale and retail price levels, in industrial output and in the value of all goods and services, the domestic oil producing industry has experienced increasing economic difficulties.

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TRENDS IN U.S. PETROLEUM EXPLORATION AND DEVELOPMENT, 1952-1964



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IPAA CHART

The severity of the petroleum recession can be illustrated by the changes in the real price of crude oil, as measured in constant 1954 dollars. These changes are shown in the chart "Real Price of Crude Oil." It will be noted that the real price of crude oil in 1964 was 47 cents per barrel below the 1957 price. Within the last seven years, therefore, the purchasing power of the "oil dollar" has dropped by 16 percent. It is logical to expect that this unhealthy trend would be reflected in decreasing activity, employment and, most important, in the volume of new reserves being found and developed to meet the increased needs of the future.

Few, if any, will question the Interior Department's conclusion in its January 1965 report, previously cited, that "what has been done since 1956 to find new supplies of oil, whether through new discoveries or through increasing recovery rates of oil deposits, has not been enough to provide a sound basis for future growth."

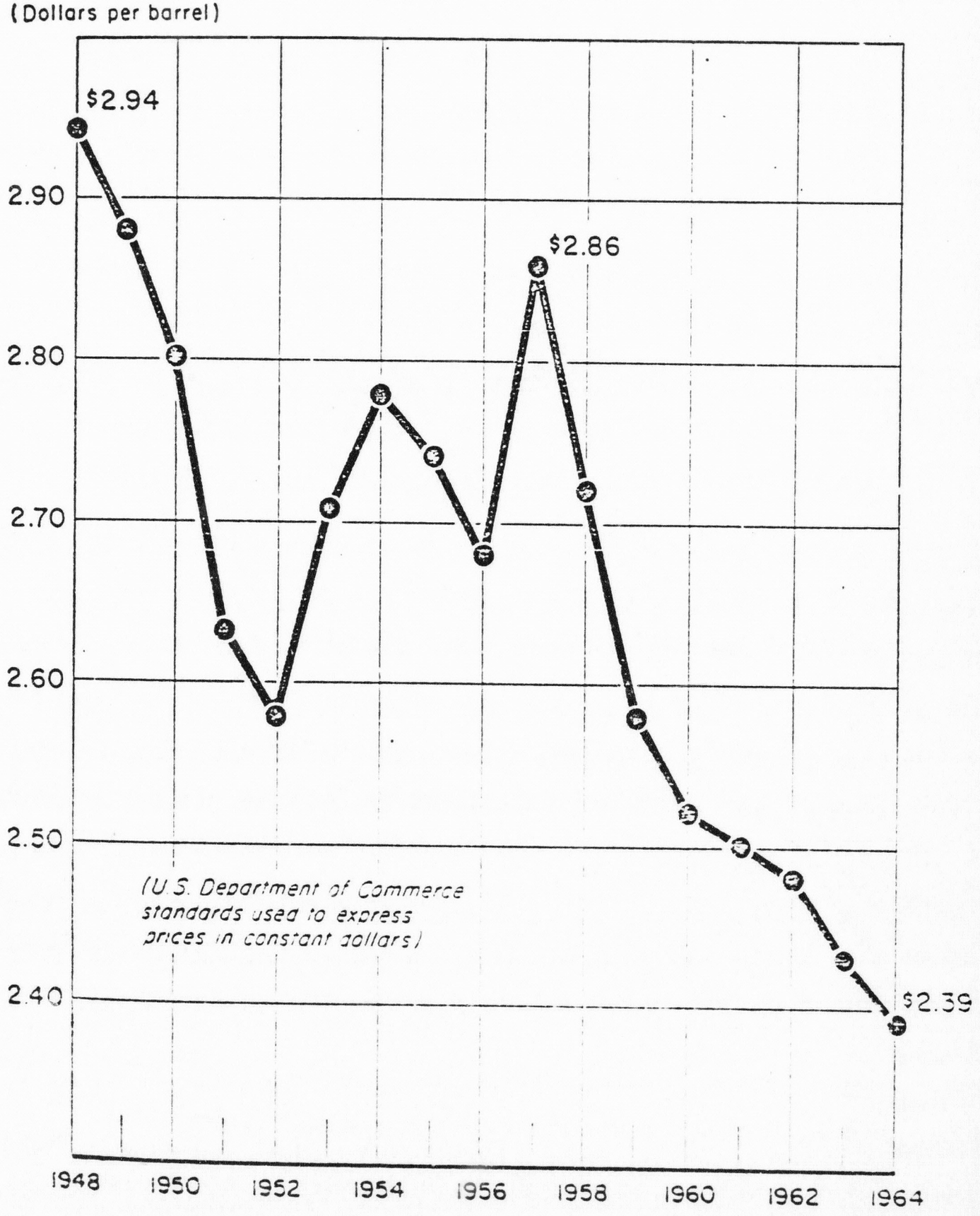
Further evidence of conditions within the domestic industry is summarized in the chart "Crude Oil Trends." This chart compares the trends in proved reserves, producing capacity, total production, production per well, total income, and income per well (1) for the United States as a whole and (2) for the producing area comprising Kansas, Oklahoma, Indiana, Illinois, Kentucky and North Texas. Independent producers predominate in this six-state area and the trends are indicative of the changing conditions generally experienced by independents.

It will be noted that through the 1950's the trends in the areas in which independent producers predominate closely followed trends for the United States as a whole. Proved reserves and producing capacity were increasing steadily. The trend of total crude oil production was generally upward in both the independents' area and in the United States. Total income from crude oil production was rising,

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REAL PRICE OF CRUDE OIL

(In Constant 1954 Dollars)



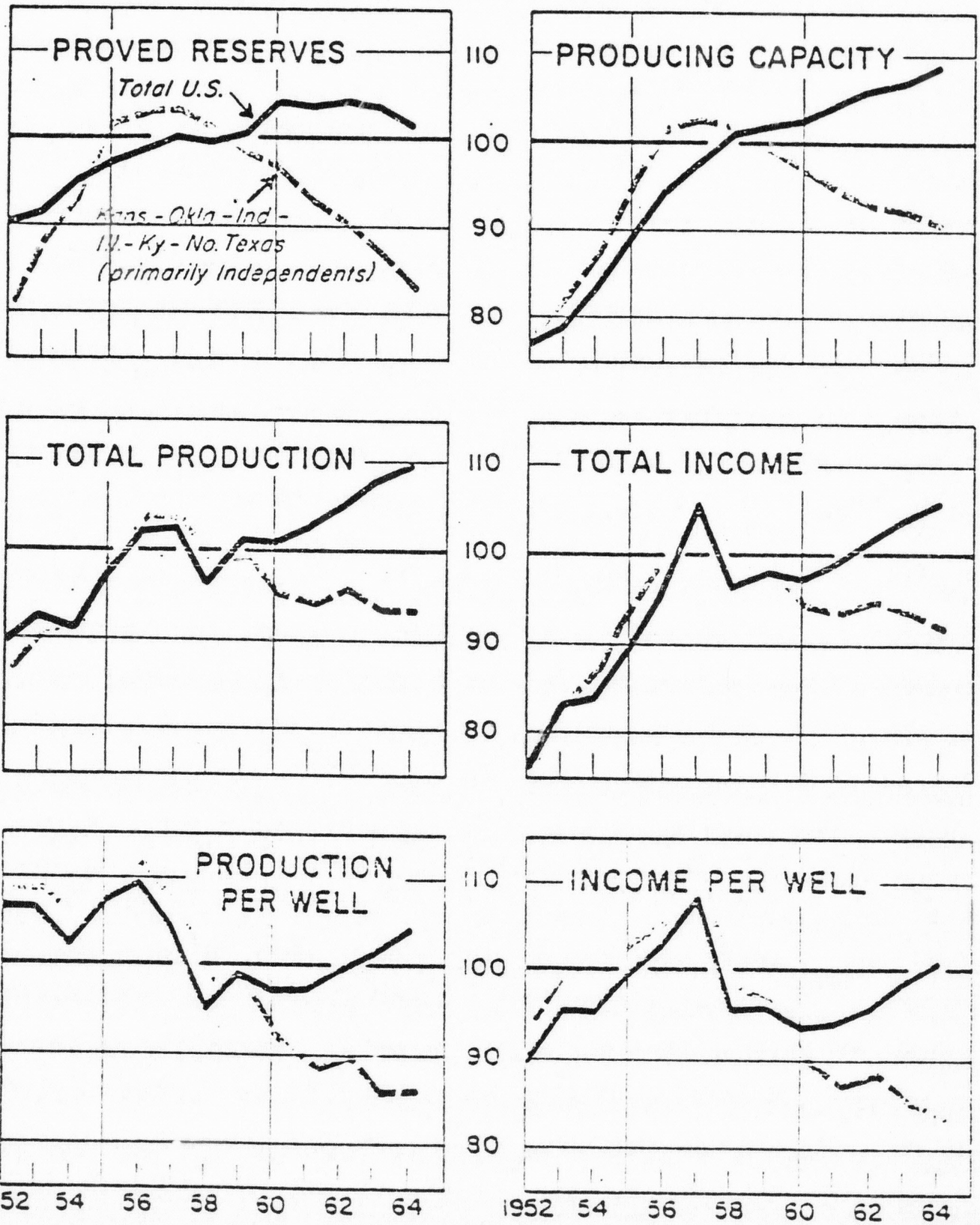
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CRUDE OIL TRENDS

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INDEX NUMBERS, 1957-59 = 100



IPAA CHART
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with increases in the income per producing oil well for the independents as well as for the entire industry.

Since 1958, there has been an abrupt and significant change in these trends. In terms of index numbers with the Government base period of 1957-59 as equal to 100, this change in trend may be summarized as follows:

	Percent Change in 1964 from 1957-59 Base Period	
	Total U. S.	Independent Area*
Crude Petroleum		
Proved Reserves	+1.8%	-18.1%
Producing Capacity	+8.7	-10.9
Total Production	+9.8	- 7.3
Production per well	+4.0	-15.1
Total Income	+6.0	- 9.9
Income per well	+0.5	-18.0

*Kansas, Oklahoma, Indiana, Illinois Kentucky and North Texas

Clearly, these figures for the United States as a whole are misleading with regard to the economic position of independent producers. The sharp drops in reserves, producing capacity, production and income experienced by independent producers has been offset by increases in other areas such as the Louisiana and Texas Gulf Coast, where the extremely high costs and large capital requirements restrict operations generally to the larger companies.

Further evidence that the increases in production and income are accounted for by the larger companies is available from an analysis of the annual reports by The Chase Manhattan Bank covering a group of some 30 larger producers.

The Chase Bank group of companies includes several producers not engaged in refining or marketing and some integrated concerns that would not be considered

as "major companies." For purposes of this analysis, however, this group as a whole is referred to as measuring trends for the so-called "majors" as compared with trends for "independents" in the all other group.

Total U. S. crude oil production increased by 480,000 barrels daily from 1959 to 1963. All of this increase was by the majors whose total production increased by 526,000 barrels per day, or 12.0 percent. The combined production by the thousands of independents actually declined by 38,000 barrels or 1.4 percent from 1959 to 1963.

The independents' share of total U. S. production has dropped from about 38 percent when the oil import program was established, to 35 percent in 1963. Despite this trend, the degree of concentration in domestic oil and gas production is very low relative to most other basic industries. However, the deteriorating position of independent producers adversely affects their vital role in the search for, and development of, the new reserves needed to meet expanding U. S. requirements for oil and gas.

To illustrate further, information on expenditures for exploration and development in the United States are available for the same Chase Bank group of companies as compared with the expenditures by thousands of independents. Approximately the same total amount was spent by each group in 1952 ($1.38 billion by the majors and $1.75 billion by the independents). Both groups substantially increased these expenditures from 1952 to 1957. A drastic change, however, took place from 1957 to 1963. The majors maintained exploration and development expenditures at close to the 1957 level. In contrast, the expenditures by the thousands of independent producers declined sharply by 37 percent from $2.40 billion in 1957 to $1.51 billion in 1963.

The facts show clearly that independent producers have not been sharing in the increased domestic oil production and income. Confronted by rising costs and price erosion, the funds and incentives have been progressively reduced for independent producers that have historically assumed the leading role in drilling exploratory wells and finding the new reserves needed for future expansion.

The foregoing analysis has been presented to establish that the entire domestic producing industry is far from healthy and vigorous. Over-all figures for the United States as a whole or for a selected group of larger companies obscure a dangerous and unhealthy situation existing within the industry. As a matter of fact, the reported earnings of all oil companies, large and small, do not reflect the high and increasing replacement costs of finding new petroleum reserves. The largest part of the domestic oil being produced today was found at a small fraction of present discovery costs. Even the Chase Bank group of companies would appear far less "healthy and vigorous" if their earning statements were based on today's replacement costs.

It is a fact that the domestic industry is in a seriously depressed economic state. While the industry has the technical capabilities to find, develop and produce adequate petroleum supplies to meet national requirements for the foreseeable future, today's economic conditions make it impossible to accomplish what is needed to assure the future growth in keeping with expanded requirements.

Certainly, there are many factors contributing to the economic difficulties that have plagued the industry during the past seven years. The fact that imports are not the only factor exerting an adverse impact in no way denies that these imports are an important factor. The experience of the industry under the Mandatory Oil Import Program leaves little doubt that there is a need to lower the import-production relationship and provide for a greater expansion of the domestic industry.

It is recognized that the economic deterioration of the domestic industry that has persisted since the mid-1950's would have been far worse without the influence of the import program. Increases in imports have been confined primarily to residual fuel oil, where technology and economics have resulted in declining domestic output, and to District V. For non-residual imports into Districts I-IV, a basically stable balance with domestic production has been maintained.

However, the foregoing evidence of industry conditions leaves no doubt that the level of imports has been excessive. Six years' experience confirms the urgent need to reduce substantially the level of imports into Districts I-IV and reverse the dangerous trend toward dependency on imports in District V where imports now exceed 50 percent of production and supply 30 percent of the consumption in that area.

Oil Development and Production in Other Nations

A meaningful reduction in U. S. oil imports could be made, together with other improvements to strengthen the Mandatory Oil Import Program, and the foreign oil-producing nations of the Free World would continue to experience large and healthy increases in production. Pertinent information is summarized in the three graphic charts covering the markets for Eastern Hemisphere, Venezuelan and Canadian oil during the period of the oil import program. The record of oil production (crude oil and natural gas liquids) in these areas during the past six years is as follows:

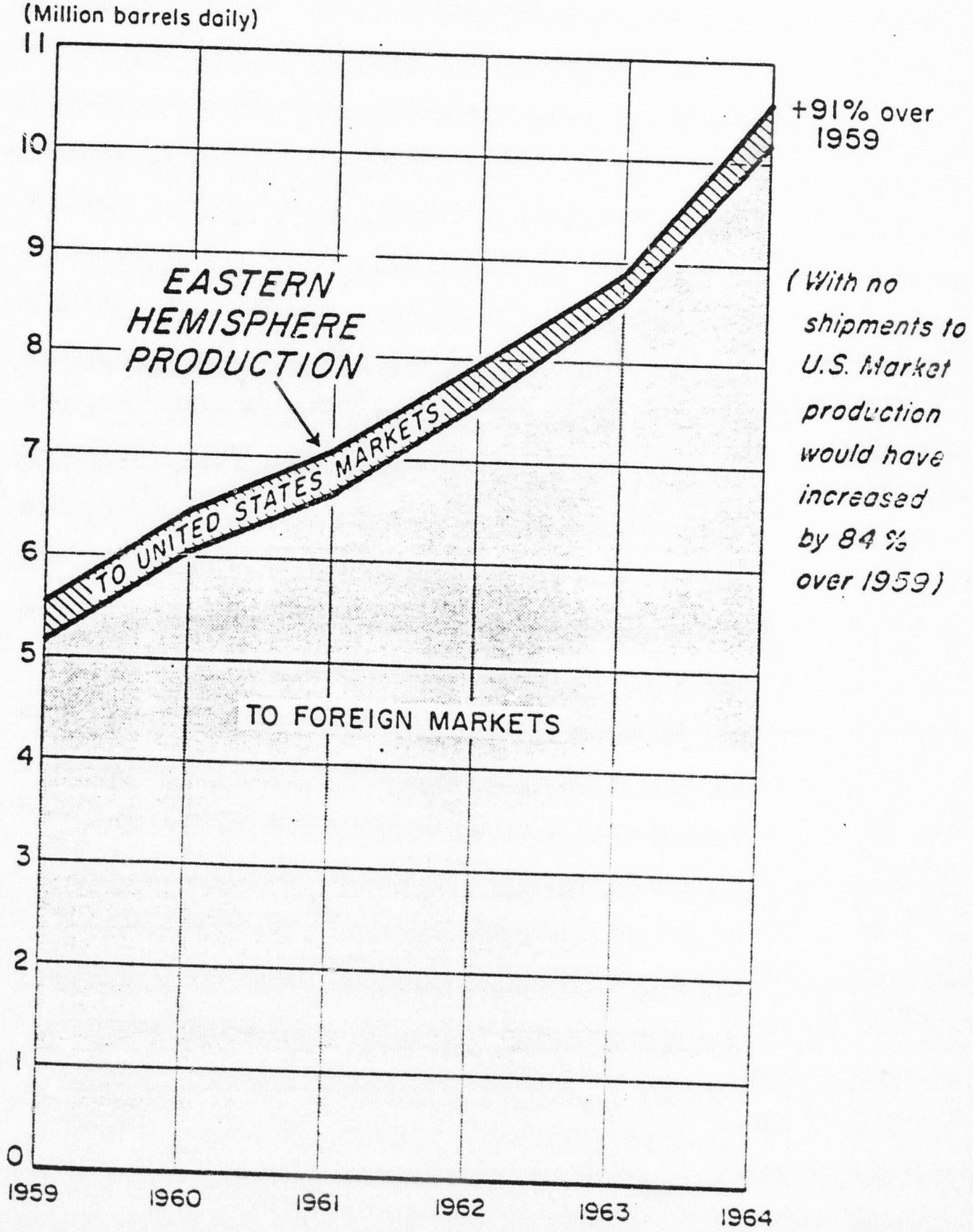
Free Foreign Oil Production
(Thousand Barrels Daily)

	Eastern Hemisphere	Venezuela	Canada
1959	5,540	2,797	518
1960	6,451	2,873	541
1961	7,047	2,947	643
1962	7,958	3,230	737
1963	8,996	3,280	787
1964	10,574	3,415	845
Percent Increase 1964 vs. 1959	+91%	+22%	+63%

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MARKETS FOR EASTERN HEMISPHERE OIL

(Excluding Soviet Bloc)

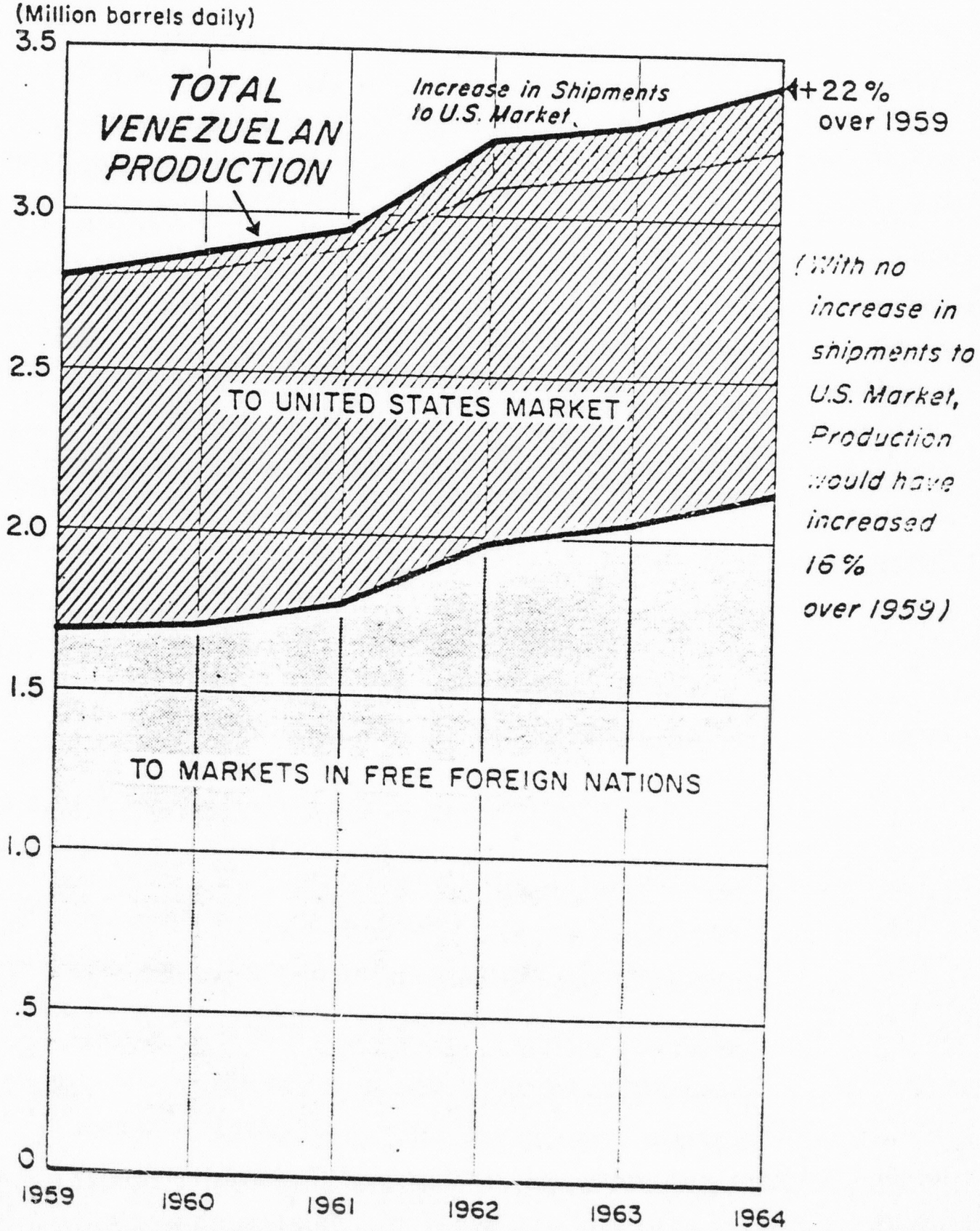


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MARKETS FOR VENEZUELAN OIL

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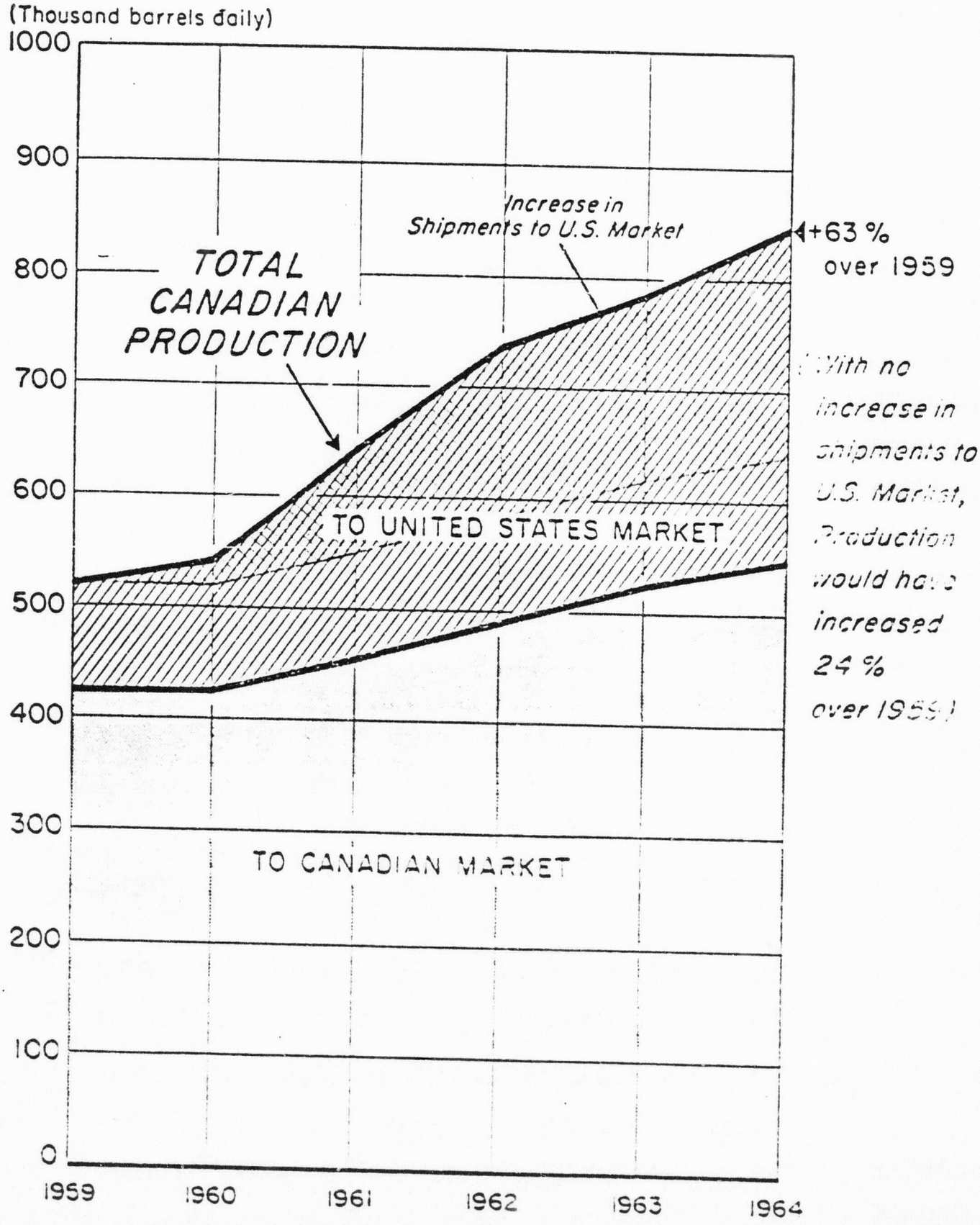


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MARKETS FOR CANADIAN OIL

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IPAA CHART
Mar. '65

In contrast to these increases, U. S. production of crude and gas liquids rose by 11 percent from 1959 to 1964.

More than 95 percent of the total production in the free nations of the Eastern Hemisphere is shipped to markets outside the United States. Imports of Eastern Hemisphere oil into the United States market have ranged between 350,000 and 400,000 barrels daily since 1959, with the 1964 imports slightly over 400,000 barrels daily.

Eastern Hemisphere oil production has increased by more than 5,000,000 barrels daily or 91 percent since 1959. If all shipments of Eastern Hemisphere oil to the United States were eliminated, the increase in Eastern Hemisphere production would be 84 percent over the six-year period. The elimination of shipments to the United States in the single year of 1964 would have reduced the yearly gain in Eastern Hemisphere production from approximately 18 percent to approximately 13 percent.

Venezuelan production shows an increase of 618,000 barrels daily or 22 percent from 1959 to 1964. During this period, shipments of Venezuelan oil to the U. S. market increased by somewhat less than 200,000 barrels per day, or less than one-third of the total increase in Venezuelan output. With no increase in shipments of Venezuelan oil to the U. S. market, Venezuelan production would have increased by 16 percent since 1959 as compared with the actual increase of 22 percent.

In the case of Canada, increased shipments to the U. S. market have been a more significant factor in the expansion of Canadian production. Canadian oil production rose by 63 percent from 1959 to 1964. Had there been no increase in the shipments of Canadian oil to the U. S. market, oil production in Canada would have increased by 24 percent since 1959 as compared with the actual increase of 63 percent.

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These facts demonstrate that oil imports into the United States could be reduced without interfering with healthy increases in foreign production that are needed primarily to meet increasing requirements for oil outside the United States. It is neither equitable nor in the interests of national security that the desire of foreign producing nations for ever greater markets should take precedence over the need for reasonable reductions in U. S. oil imports to assure the minimum expansion of the domestic industry called for in the public interest.

The Role of Oil Imports in the U. S. Balance-of-Payments Problem

A related consideration is the serious situation growing out of continuing deficits in this Nation's international balance of payments. The deficit in U. S. petroleum trade is a significant item in this situation.

For the last seven consecutive years the adverse balance in our international accounts has ranged between $3 billion and $4 billion. During this same interval, the oil trade deficit has exceeded $1 billion each year and this does not include the tanker transportation costs paid to foreigners to haul the oil, nor does it include U. S. military purchases of oil abroad. If these payments are added, the average annual deficit becomes $1.5 billion for the last seven years or 40 percent of the total imbalance.

U. S. military purchases of foreign light petroleum products - excluding residual or bunker oil - exceed 200,000 barrels per day and annual expenditures for these foreign supplies aggregate $250 million. The purchases of light petroleum products from foreign sources have grown from less than 15 percent to 35 percent of total Department of Defense light product purchases during the last ten years. The U. S. military imports about 35,000 barrels daily of these foreign purchases - mainly jet fuel - into the United States for consumption at air bases within this

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country despite the fact that such refined products are readily available from domestic refineries which have operated at only 80-85 percent of capacity for several years and there is a large shut-in producing capacity of crude oil in the United States.

A reduction in oil imports and a diversion of a portion of military purchases from foreign to domestic sources are two practical means of making a substantial contribution toward correcting the balance-of-payments problem. It is recognized that the foreign oil operations of American companies result in an inflow of earnings and funds spent for the export of U. S. material and equipment. However, the over-all foreign operations of American oil companies are conducted primarily to satisfy requirements for oil in foreign areas rather than for importation into the United States. The return on these foreign investments and the flow of funds into the United States from exports of equipment and materials would be affected to a negligible degeee, if at all, by a reduction in oil imports.

Taking all factors into consideration, a reduction in oil imports and a diversion of military purchases unquestionably would serve to substantially improve our over-all balance of payments, as well as serving the interests of national security.

Conclusions

As shown in this statement, the experience of six years under the Mandatory Oil Import Program demonstrates the need for a meaningful reduction in imports, through the changes set forth in Appendix B, to serve the basic objectives of the program. Revisions in the program should also be consistent with the accomplishment of a long-range "Expansion Goal" for U. S. oil production.

A reduction in imports would provide the domestic industry with funds and incentives to expand U. S. exploration and development so as to provide the oil and gas needed to meet future national requirements. Such a reduction would constitute a declaration of purpose, by Government, which would serve to restore confidence throughout the industry. The magnitude of the task involved in reaching the necessary expansion goals requires and provides opportunities for both majors and independents. A positive program of long-range expansion will result in healthy conditions throughout the domestic industry.

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COMPARATIVE TRENDS IN THE U. S. OIL AND GAS PRODUCING INDUSTRY

1952-1964

	Geophysical Activity Crew Mo's.	Active Rotary Rigs (Number)	Exploratory Wells (Number)	Total Wells (Number)	New Reserves Found Crude (Mil.Bbls.)	Gas Liquids (Mil.Bbls.)	Total (Mil.Bbls.)	Crude Oil Price (per bbl.)	Cost of Drilling	Hourly Wages	Employment (Number)
1952	8,923	2,642	10,552	45,821	2,749	557	3,306	$2.53	____	$1.98	303,400
1953	8,672	2,612	11,062	49,279	3,296	744	4,040	2.68	____	2.10	311,400
1954	7,969	2,515	11,280	53,930	2,873	107	2,980	2.78	____	2.15	318,100
1955	8,240	2,688	12,271	56,682	2,871	514	3,385	2.77	____	2.20	331,900
1956	7,846	2,619	13,034	58,160	2,974	810	3,784	2.79	____	2.35	340,100
1957	7,242	2,429	11,739	55,024	2,425	137	2,562	3.09	____	2.47	344,000
1958	5,731	1,923	9,588	50,039	2,608	858	3,466	3.01	____	2.54	327,500
1959	5,696	2,074	10,073	51,764	3,667	703	4,370	2.90	____	2.65	329,500
1960	5,207	1,745	9,635	46,751	2,365	725	3,090	2.88	____	2.69	309,200
1961	5,024	1,763	9,191	46,962	2,657	695	3,352	2.89	____	2.80	303,100
1962	4,231	1,637	9,003	46,179	2,181	732	2,913	2.90	____	2.83	298,000
1963	4,174	1,501	8,607	43,653	2,174	878	3,052	2.89	____	2.93	289,100
1964	N. A.	1,502	9,258	45,236	N. A.	N.A.	N.A.	2.89	____	2.95	288,600

INDEX NUMBERS 1957-59=100

1952	143.4	123.3	100.8	87.7	94.8	98.4	95.4	84.3	____	77.6	90.9
1953	139.4	121.9	105.7	94.3	113.7	131.4	116.6	89.3	____	82.4	93.3
1954	128.1	117.4	107.8	103.2	99.1	18.9	86.0	92.7	____	84.3	95.3
1955	132.4	125.5	117.2	108.4	99.0	90.8	97.7	92.3	____	86.3	99.5
1956	126.1	122.2	124.5	111.3	102.5	143.1	109.2	93.0	____	92.2	101.9
1957	116.4	113.4	112.2	105.3	83.6	24.2	73.9	103.0	99.6	96.8	103.1
1958	92.1	89.8	91.6	95.7	89.9	151.6	100.0	100.3	98.6	99.4	98.2
1959	91.5	96.8	96.2	99.0	126.5	124.2	126.1	96.7	101.8	103.8	98.7
1960	83.7	81.5	92.1	89.4	81.6	128.1	89.1	96.0	104.2	105.5	92.7
1961	80.7	82.3	87.8	89.8	91.6	122.8	96.7	96.3	106.2	109.8	90.8
1962	68.0	76.4	86.0	88.3	75.2	129.3	84.0	96.7	108.2	111.0	89.4
1963	67.1	70.1	82.2	83.5	75.0	155.1	88.1	96.3	108.1	114.8	86.7
1964	N.A.	70.1	88.4	86.5	N.A.	N.A.	N.A.	96.3	N.A.	115.6	88.6

Sources of Data: Geophysical Activity from Society of Exploration Geophysicists. Rotary Rigs Active from Hughes Tool Co. Exploratory and Total Wells from Oil and Gas Journal. Reserves found from A.P.I. Crude oil price from U. S. Bureau of Mines, Cost of Drilling from IPAA Cost Study Committee. Hourly Wages and Employment from U. S. Bureau of Labor Statistics.

Prepared by the Independent Petroleum Association of America, March 1965.

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			2,766	2,934	3,014	3,002	2,889	2,821	2,782	2,674	2,665	2,591	2,469
		741	769	811	860	916	860	805	805	751	682	630	581
		1,130	1,100	1,185	1,134	1,070	1,152	1,127	1,089	1,051	1,013	981	949
	5,100	5,245	5,705	5,848	5,927	6,616	7,242	7,561	8,031	8,275	8,445	8,435	9,305
	27,468	27,961	28,945	29,561	30,012	30,435	30,300	30,536	31,719	31,613	31,759	31,389	30,970
Crude Productive Capacity (Jan. 1)													
Kansas-Oklahoma	875	930	975	1,055	1,085	1,095	1,080	1,055	1,040	1,025	1,005	992	975
Ill.-Ind.-Kentucky	224	230	238	286	309	315	302	307	303	288	285	285	280
North Texas (7b & 9)	304	315	365	385	430	440	445	425	400	390	390	375	368
Total	1,403	1,475	1,578	1,726	1,824	1,850	1,827	1,787	1,743	1,703	1,670	1,652	1,623
Texas-La.-Gulf	1,407	1,475	1,565	1,675	1,850	2,120	2,250	2,390	2,425	2,545	2,715	2,810	2,940
Total U. S.	7,290	7,465	7,926	8,442	8,929	9,250	9,493	9,656	9,708	9,892	10,081	10,169	10,286
Crude Production													
Kansas-Oklahoma	834	869	836	809	929	927	878	870	837	836	862	837	845
Ill.-Ind.-Kentucky	230	228	251	296	305	293	300	317	302	292	298	288	275
North Texas (7b & 9)	271	297	315	345	368	366	338	342	323	319	310	311	313
Total	1,335	1,394	1,402	1,530	1,602	1,591	1,516	1,529	1,462	1,447	1,470	1,436	1,433
Texas-La.-Gulf	1,179	1,210	1,117	1,229	1,306	1,351	1,238	1,370	1,422	1,499	1,671	1,790	1,890
Total U. S.	6,256	6,498	6,342	6,807	7,151	7,170	6,710	7,054	7,183	7,332	7,542	7,663	
Producing Wells (Jan. 1)													
Kansas-Oklahoma	90.1	93.9	98.8	103.1	106.1	107.6	112.8	113.1	115.8	118.2	120.3	127.5	128.4
Ill.-Ind.-Kentucky	47.9	48.3	50.1	51.3	51.5	54.5	54.4	55.6	58.0	57.7	57.4	55.2	55.4
North Texas	32.0	33.7	35.6	38.3	41.1	43.8	45.7	47.1	48.2	49.2	49.4	49.0	48.6
Total	170.0	175.9	184.5	192.7	198.7	205.9	212.9	215.8	222.0	225.1	227.1	231.7	232.4
Texas-La.-Gulf	23.7	25.1	26.8	26.9	28.7	29.9	33.5	35.3	29.9	31.1	32.0	33.3	34.2
Total U. S.	475.0	488.5	498.9	511.2	524.0	551.2	569.3	574.9	583.1	591.2	594.9	596.4	595.5
Production Per Well													
Kansas-Oklahoma	9.3	9.3	8.5	8.6	8.8	8.6	7.8	7.7	7.2	7.1	7.2	6.6	6.6
Ill.-Ind.-Kentucky	4.8	4.7	5.0	5.8	5.9	5.4	5.5	5.7	5.2	5.1	5.2	5.2	5.0
North Texas	8.5	8.8	8.8	9.0	9.0	8.4	7.4	7.2	6.7	6.5	6.3	6.3	6.4
Total	7.9	7.9	7.6	7.9	8.1	7.7	7.1	7.1	6.6	6.4	6.5	6.2	6.2
Texas-La.-Gulf	49.8	48.2	41.7	45.7	45.5	45.2	37.0	38.8	47.6	48.2	52.2	53.8	55.3
Total U. S.	13.2	13.2	12.7	13.3	13.6	13.0	11.8	12.3	12.1	12.1	12.3	12.6	12.9
Total Wells Drilled													
Kansas-Oklahoma	10,852	12,376	13,508	13,369	12,997	11,653	11,304	10,189	9,090	10,568	9,164	8,617	9,113
Ill.-Ind.-Kentucky	4,736	4,609	5,210	6,190	6,485	4,935	5,433	6,602	5,622	4,747	4,383	4,336	3,733
North Texas (7b & 9)	5,240	6,465	7,138	7,433	7,654	7,428	6,160	6,106	5,134	4,399	4,430	4,306	3,674
Total	20,828	23,450	25,856	26,992	27,136	24,016	22,897	22,897	19,846	19,714	17,977	17,259	16,520
Texas-La.-Gulf	3,663	4,053	4,256	4,454	4,798	4,833	4,185	4,255	4,174	4,223	4,751	4,506	4,493
Total U. S.	45,821	49,249	53,930	56,602	50,160	55,024	50,039	51,764	46,751	46,962	46,179	43,653	45,236
Crude Oil Income													
Kansas-Oklahoma	781	855	854	905	947	1,023	954	926	892	886	918	900	885
Ill.-Ind.-Kentucky	242	242	272	314	326	333	338	340	325	318	323	312	292
North Texas	253	293	322	351	377	407	365	366	346	342	335	335	338
Total	1,266	1,390	1,448	1,570	1,650	1,763	1,657	1,632	1,563	1,546	1,576	1,547	1,515
Texas-La.-Gulf	1,162	1,202	1,215	1,337	1,419	1,659	1,486	1,604	1,653	1,742	1,941	2,066	2,185
Total U. S.	5,789	6,327	6,425	6,870	7,297	8,079	7,390	7,473	7,420	7,566	7,774	7,966	8,100
Income Per Producing Well													
Kansas-Oklahoma	8,668	9,105	8,644	8,778	8,926	9,507	8,457	8,187	7,703	7,496	7,631	7,059	6,893
Ill.-Ind.-Kentucky	4,843	5,010	5,429	6,121	6,330	6,110	6,029	6,115	5,603	5,511	5,627	5,652	5,271
North Texas	7,906	8,694	9,045	9,164	9,171	9,292	7,987	7,771	7,178	6,951	6,781	6,837	6,954
Total	7,447	7,902	7,848	8,147	8,304	8,562	7,736	7,563	7,041	6,848	6,940	6,677	6,549
Texas-La.-Gulf	49,080	50,279	45,336	49,703	49,443	55,489	44,358	45,439	55,284	56,013	60,656	62,042	63,093

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COMPARATIVE TRENDS IN CRUDE OIL RESERVES, CAPACITY, PRODUCTION, WELLS AND INCOME
1952-1964

(Independent Area includes Kansas, Oklahoma, Illinois, Indiana, Kentucky and North Texas)

Index Numbers 1957-59= 100

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Crude Reserves													
Total Independent Area	80.9	88.4	92.9	101.0	102.6	102.2	100.4	97.4	95.8	91.7	89.3	86.1	81.9
Total U. S.	90.3	91.9	95.1	97.2	98.6	100.0	99.6	100.4	104.3	103.9	104.4	103.2	101.8
Crude Productive Capacity													
Total Independent Area	77.0	81.5	86.7	94.8	100.2	101.6	100.3	98.1	95.7	93.5	91.7	90.7	89.1
Total U. S.	77.0	78.9	83.7	89.2	94.3	97.7	100.3	102.0	102.6	104.5	106.5	107.4	108.7
Crude Production													
Total Independent Area	86.4	90.2	90.7	99.0	103.7	103.0	98.1	98.9	94.6	93.7	95.1	92.9	92.7
Total U. S.	89.6	92.5	90.9	97.5	102.5	102.7	96.2	101.1	100.8	102.9	105.4	108.1	109.8
Production Per Well													
Total Independent Area	108.2	108.2	104.1	108.2	111.0	105.5	97.3	97.3	90.4	87.7	89.0	84.9	84.9
Total U. S.	106.5	106.5	102.4	107.3	109.7	104.8	95.2	99.2	97.6	97.6	99.2	101.6	104.0
Crude Oil Income													
Total Independent Area	75.3	82.7	86.1	93.4	98.2	104.9	98.0	97.1	93.0	92.0	93.8	92.0	90.1
Total U. S.	75.7	82.8	84.1	89.9	95.5	105.7	96.5	97.8	97.1	99.0	101.7	104.2	106.0
Income Per Producing Well													
Total Independent Area	93.6	99.3	98.7	102.4	104.4	107.6	97.3	95.1	88.5	86.3	87.2	83.9	82.0
Total U. S.	89.9	95.7	95.1	99.3	102.9	108.3	95.7	96.0	94.0	94.5	96.5	98.6	100.5

Crude oil reserves at beginning of year in million barrels. Crude oil producing capacity at beginning of year in thousand barrels daily. Crude production during year in thousand barrels daily. Number of producing oil wells in thousands. Crude oil production per well in barrels per well per day. Income per well in dollars per day.

Source: Crude reserves from A.P.I. and Oil and Gas Journal. Productive Capacity from IPAA. Production, Producing Wells and Crude Oil Income from U. S. Bureau of Mines. Total Wells drilled from Oil and Gas Journal.

Prepared by the Independent Petroleum Association of America, March 1965

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MAPKETS FOR FOREIGN OIL
1959-1964
(Thousands of Barrels Daily)

	1959	1960	1961	1962	1963	1964 (Prelim.)
Venezuela and N.W.I.						
To United States	1,106	1,159	1,151	1,240	1,232	1,290
To Other Markets	1,691	1,714	1,796	1,990	2,048	2,125
Total	2,797	2,873	2,947	3,230	3,280	3,415
Canada						
To United States	95	117	188	248	265	299
To Other Markets	423	424	455	489	522	546
Total	518	541	643	737	787	845
Eastern Hemisphere						
To United States	383	386	393	393	366	409
To Other Markets	5,157	6,065	6,654	7,565	8,630	10,165
Total	5,540	6,451	7,047	7,958	8,996	10,574
Total Free World						
To United States	1,780	1,815	1,917	2,088	2,123	2,259
To Other Markets	7,901	8,976	9,749	10,932	12,075	13,706
Total	9,681	10,791	11,666	13,014	14,198	15,965

Source: U. S. Department of Interior and
Venezuelan Ministry of Mines and Hydrocarbons

IPAA Table
March 1965

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APPENDIX A

THE ORIGIN AND PURPOSE OF THE MANDATORY OIL IMPORT PROGRAM

Few major national policies have received more study and consideration over the past fifteen years than has the matter of excessive petroleum imports and their impact on the domestic petroleum producing industry and national security.

During this period there emerged, as a direct result of the thorough and exhaustive consideration by the Legislative and Executive branches of the Federal Government, a firm national policy on petroleum imports. In the interest of national security this policy calls for the maintenance of a proper balance between petroleum imports and domestic petroleum production in order to insure a dynamic and vigorous domestic petroleum producing industry - an industry which at all times would be capable of producing the petroleum needed to successfully prosecute wars, stave off and deter war threats, help other friendly nations with their petroleum needs in times of crises, and to supply at reasonable prices the petroleum products so necessary for an ever expanding national economy.

The basic national policy on petroleum imports did not just happen.

As far back as January 13, 1949, the National Petroleum Council, established under the auspices of the Federal Government as the official oil industry advisory body to the Federal Government, outlined a set of fundamental principles as essential to a national oil policy. These principles, which were formulated by the Council at the request of the Secretary of the Interior, were adopted unanimously by the Council.

The very first of these fundamental principles was as follows:

> ". . . The National security and welfare require a healthy domestic oil industry.

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"Continuing supply to meet our national oil needs depends primarily on availability from domestic sources. Due consideration should be given to the development of foreign oil resources, but the paramount objective should be to maintain conditions best suited to a healthy domestic industry which is essential to national security and welfare."

Earlier, during World War II, the Petroleum Industry War Council had recommended to the government certain policies which were reflective of the oil industry's peacetime and wartime experience with oil imports. This oil industry council was created under the Petroleum Administration for War, to act as an advisory body to the government on problems affecting the oil industry.

This industry Council was requested to submit to the Petroleum Administrator, for the use of the government, a statement of suggested policies for the Federal Government and the industry.

At the conclusion of the war, and at the last session of this agency, on October 24, 1945, the following resolution was adopted by that Council.

"WHEREAS, during the emergency just ended, in order to meet accelerated war requirements, this nation found it necessary to import abnormal quantities of crude oil and refined products from foreign sources; and

"WHEREAS, the future of the domestic petroleum industry in this country depends on the maintenance of sufficient reserves and the productivity of its many fields, thereby enabling the industry to meet all the requirements incident to an expanding domestic economy; and

"WHEREAS, the continued importation of large quantities of crude oil and products at prices below the cost of production in this country would have a depressing effect on exploration, development and production in the domestic industry;

"NOW, THEREFORE BE IT RESOLVED, by the Petroleum Industry War Council, assembled on this the 24th day of October, 1945, in Washington, D. C., that it does declare that in the public interest and that in the interest of maintaining national security it should be the policy of this nation to so restrict amounts of imported oil so that such quantities will not disturb or depress the producing end of the domestic petroleum industry, and only such amounts of oil should be imported into this country as is absolutely necessary to augment our domestic production when it is produced under conditions consonant with good conservation practices."

Thus it can be seen that at the end of World War II this national advisory group concluded that petroleum imports should not be permitted to weaken the domestic petroleum producing industry and thus threaten our nation's security and economic welfare.

Soon after World War II Congress began to investigate and give extensive consideration to the status of the domestic petroleum industry and how imported foreign oil affected this industry.

On January 31, 1947, The Special Committee Investigating Petroleum Resources, set up by the Senate, in Senate Report No. 9, 79th Congress, concluded as follows:

> "In the final analysis, the reserves within our own borders are more likely than not to constitute the citadel of our defense.
>
> "It follows that nothing should be done to weaken the productive capacity of domestic reserves, and that every possible step should be taken both to increase these reserves and continuously to develop them to such a degree as would occasion no regret in the event of war."
>
> * * * * * *
>
> "This nation now faces two alternatives:
>
> Either -
>
> "1. To await with hope the discovery of sufficient petroleum within our boundaries that the military requirements of the future will occasion no concern, and in the meantime to depend upon foreign oil and trust that war will not cut off our imports;
>
> Or -
>
> "2. To take steps to guarantee a domestic petroleum supply adequate for all eventualities by means of:
>
> (a) Incentives to promote the search for new deposits of petroleum within the boundaries of the United States and in the continental shelf; and
>
> (b) The continuation of the present program looking to the manufacture of synthetic liquid fuels to supplement our domestic crude supply.
>
> "All the facts before us impel the choice of the second alternative."

The foregoing dealth with a study and the conclusions by a special Committee of Congress during the late 1940's.

In the 1950's Congress continued to concern itself with the domestic petroleum industry and the matter of imports of foreign oil.

In developing a national petroleum imports policy, Congress had the benefit of studies and conclusions of the Executive branch, such as:

The conclusions of the Defense Production Administration, established as a result of the Korean conflict, in January, 1953, which contained the results of its studies regarding defense matters in a report entitled "Background for Defense, Expanding our Industrial Might," as follows:

> "The machines of peace and war run on petroleum. A program to expand American industry substantially and keep it operating at top capacity requires constantly increasing quantities for fuel, for lubricants, and for many chemicals made from petroleum -- everything from toluene for TNT to wax for packagings. Greater industrial activity and peak levels of employment demand more and more gasoline for airplanes, automobiles, trucks, tractors, and buses, and more diesel fuel for locomotives.
>
> "The defense program will by 1953 boost our petroleum needs to some 8,200,000 barrels a day as contrasted with 6,800,000 barrels a day used in 1950 - a better than 20 percent increase.
>
> "If we are to meet the needs, we shall have to drill more wells each year than ever before in our history. We shall have to expand the refineries where crude oil is made into gasoline and fuel oil and the other finished petroleum products. We shall have to enlarge our transportation facilities to move the crude petroleum to the refineries and the finished products to consumers."

In May of 1953, Secretary of the Interior McKay, in appearing before the House Ways and Means Committee, stated as follows:

> "I recognize the importance of domestic petroleum production to national defense and the contribution it makes to the National economy and that of the oil-producing states. I also realize that the petroleum industry is unique in that discovery and development of new reserves constitute

a major and vital activity of the industry. Oil and gas produced must be replaced by a vigorous and progressive search for new reserves or the Nation's ability to produce petroleum would rapidly deteriorate.

"I recognize how important it is that the strength of the domestic industry be maintained. To maintain this strength requires an economic climate that promotes the competition, progress, and technological development that has brought the industry to its present high degree of capability. The domestic industry today is undergoing a period of readjustment. The rate of growth in demand has leveled off after the rapid gains which followed the Korean outbreak. At the same time the expansion of supply has brought about a more normal reserve capacity. Demand is now dropping seasonally at the close of a warm winter. Domestic production has been reduced in recent months, and there should be a corresponding cut in imports. There is evidence that already the industry is effecting such adjustments." (Underscoring supplied)

As the flood of foreign oil increased, the President became concerned and took action.

On July 30, 1954, the President established an Advisory Committee on Energy Supplies and Resources Policy. The Director of the Office of Defense Mobilization was designated as chairman and the heads of the following agencies served as members: Department of State, Treasury, Defense, Justice, the Interior, Commerce and Labor.

The White House directive respecting the Committee's assignment included the following specific statements:

"At the direction of the President the committee will undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding national economy and for any future emergency.

"The committee will review factors affecting the requirements and supplies of the major sources of energy including: coal (anthracite, bituminous and lignite, as well as coke, coke tars, and synthetic liquid fuels); petroleum and natural gas."

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Upon conclusion of its work the Committee recommended:

Crude Oil Imports and Residual Fuel Oil Imports

An expanding domestic oil industry, plus a healthy oil industry in friendly countries which help to supply the United States market, constitute basically important elements in the kind of industrial strength which contributes most to a strong national defense. Other energy industries, especially coal, must also maintain a level of operation which will make possible rapid expansion in output should that become necessary. In this complex picture both domestic production and imports have important parts to play; neither should be sacrificed to the other.

Since World War II importation of crude oil and residual fuel oil into the United States has increased substantially, with the result that today these oils supply a significant part of the U.S. market for fuels.

The committee believes that if the imports of crude and residual oils should exceed significantly the respective proportions that these imports of oils bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense. There would be an inadequate incentive for exploration and the discovery of new sources of supply.

In view of the foregoing, the committee concludes that in the interest of national defense imports should be kept in the balance recommended above. It is highly desirable that this be done by voluntary, individual action of those who are importing or those who become importers of crude or residual oil. The committee believes that every effort should be made and will be made to avoid the necessity of governmental intervention.

The committee recommends, however, that if in the future the imports of crude oil and residual fuel oils exceed significantly the respective proportions that such imported oils bore to domestic production of crude oil in 1954, appropriate action should be taken.

The committee recommends further that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements.

This report was released on February 26, 1955. As a result of this study the oil importing companies were requested to voluntarily restrict imports of petroleum into the United States on an individual company basis in conformity with this Committee's report.

Meanwhile this whole matter of petroleum imports was being debated in Congress. As a result Congress wrote Section 7 into the Trade Agreements Extension Act of 1955, known as the "National Security Amendment," as follows:

> "In order to further the policy and purpose of this section, whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President, and if the President agrees that there is reason for such belief, the President shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation, and the report to him of the findings and recommendations made in connection therewith, the President finds that the article is being imported into the United States in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security."

In adopting the National Defense Amendment, the Senate Finance Committee (Report 232, 84th Congress, First Session) stated:

> "(9) The Committee had before it several proposals dealing with specific commodities, namely petroleum, fluorspar, lead, and zinc. In lieu of specific action on each of these the committee adopted an amendment which specifies that the Director of the Office of Defense Mobilization shall report to the President when he has reason to believe that imports of a commodity are entering the United States in such quantities as to threaten to impair the national security; that the President shall cause an immediate investigation to be made if he feels there is reason for such belief; and that the President, if he finds a threat to the national security exists, shall take whatever action is necessary to adjust imports to a level that will not threaten to impair the national security.
>
> "The committee believes that this amendment will provide a means for assistance to the various national defense industries which would have been affected by the individual amendments presented.

"The White House issued on February 26, 1955, a report based on a study by the President's Advisory Committee On Energy Supplies and Resources Policy which indicates the importance of a strong domestic petroleum industry."

Congress had thus provided the necessary tools for the President to use in case the growing tide of petroleum imports did not subside.

Imports of petroleum continued to increase.

As a consequence of the increased level of imports and the projected increase in the level of imports scheduled for the last half of 1956, the Independent Petroleum Association of America (IPAA) filed a petition on August 7, 1956, requesting action under Sec. 7 of the Trade Agreements Extension Act of 1955 (National Security Amendment).

Pursuant thereto, the Director of Defense Mobilization held public hearings beginning on October 22, 1956.

Early in December 1956, due to the changed conditions growing out of the Suez crisis, the Director of Defense Mobilization suspended action on the case.

However, on April 23, 1957, upon further review of the oil import situation and projected increases in oil imports, the Director of ODM "advised the President pursuant to Sec. 7 of the Trade Agreements Extension Act of 1955, that he had reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security."

The growing threat to the domestic petroleum industry as a result of Congressional, industrial, and administrative studies, and the ODM certification, led to the establishment by the President of the United States on June 26, 1957, of a Special Cabinet Committee to Investigate Crude Oil Imports. This committee was made up of: Sinclair Weeks, Secretary of Commerce, Chairman; John Foster Dulles, Secretary of State; Donald A. Quarles, for Secretary of Defense;

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George M. Humphrey, Secretary of the Treasury; Fred A.Seaton, Secretary of the Interior, and James Mitchell, Secretary of Labor.

The report of the Committee, in part states:

"In summary, unless a reasonable limitation of petroleum imports is brought about, your committee believes that:

(a) Oil imports will flow into this country in ever-mounting quantities, entirely disproportionate to the quantities needed to supplement domestic supply.

(b) There will be a resultant discouragement of, and decrease in, domestic production.

(c) There will be a marked decline in domestic exploration and development.

(d) In the event of a serious emergency, this Nation will find itself years away from attaining the level of petroleum production necessary to meet our national security needs.

"Your committee recognizes that there are important foreign policy aspects to the problem of limiting petroleum imports. The oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access to our domestic market for their petroleum exports and it must be recognized that it is also in the interest of our national security that our allies and friends have healthy and expanding economies. It is believed, however, that taking all factors into consideration, our national security raquires the maintenance of some reasonable balance between imports and domestic production at this time. In light of the foregoing considerations, our recommendations are framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of our domestic demand to a degree consistent with our national security.

"It is our conviction that as a Nation we must pursue a careful, considered course that will permit reasonable imports into our country and still stimulate a dynamic and vigorous exploratory and development effort in this country."

This high-level policy committee submitted its report to the President; and on July 29, 1957, President Eisenhower, in a memorandum for the Secretary

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of the Interior and the Director of the Office of Defense Mobilization, declared:

> "I have approved the recommendations of the 'Special Committee to Investigate Crude Oil Imports' as set forth in the attached report. I direct you to put these recommendations into effect as rapidly as possible."

Presidential approval of the Special Cabinet Committee's report thus established what became known as the "Voluntary Oil Import Program." This program was put into effect on July 1, 1957.

This Voluntary Program continued in operation until March 10, 1959, at which time the President established the Mandatory Oil Import Program. In contrast to the Voluntary Program which covered only crude oil imports, the Mandatory Oil Import Program covered imports of crude oil and its products and derivatives.

The Mandatory Program was established after the Director of the Office of Civil and Defense Mobilization on February 27, 1959, "advised the President that imports of crude oil and its products and derivatives were threatening to impair the national security."

On February 27, 1959, the Director of OCDM, in his memorandum for the President, quoted the Secretary of Commerce as follows:

> "It is my considered opinion that the present rate of imports of crude oil and its derivatives and products is a major contributing factor to the decline in drilling operations both for exploration and development in the search for new oil reserves...Continuation of this trend will inevitably result in a lowering of our available reserves." (Emphasis supplied)

In this same report, the Director said:

> "The consequences would continue to upset a reasonable balance between imports and domestic production, with deleterious effect upon adequate exploration and the development of additional reserves which can only be generated by a healthy domestic production industry." (Emphasis added)

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Thus the President issued Proclamation No. 3279, dated March 10, 1959, which placed in effect the Mandatory Oil Import Program to be administered by the Department of the Interior.

When he established the Mandatory Oil Import Program, the President issued the following statement:

> "I have today issued a Proclamation adjusting and regulating imports of crude oil and its principal products into the United States.
>
> * * *
>
> "The new program is designed to insure a stable, healthy industry in the United States capable of exploring for and developing new hemisphere reserves to replace those being depleted. The basis of the new program, like that for the voluntary program, is the certified requirements of our national security which make it necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States."

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APPENDIX B E 863

Recommended Revisions in Mandatory Oil Import Program

With the objective of restoring a healthy and vigorous domestic petroleum industry in the interests of national security, the IPAA recommends the following changes in the Mandatory Oil Import Program:

Recommendation No. 1 A decrease to 10 percent of the 12.2 relationship applicable in Districts I-IV

Since the Mandatory Oil Import Program was established in 1959, the ratio of imports (excluding residual fuel oil) in Districts I-IV has been generally stabilized in relation to domestic production. In view of the continued deterioration throughout this six-year period in the activities which measure the health and vigor of the industry, it seems obvious that a lower import relationship is necessary in order to maintain a healthy and vigorous domestic industry.

Generally speaking, the domestic industry has progressively declined since the mid-1950's. During the preceding five-year period, 1950-1954 inclusive, non-residual imports into Districts I-IV averaged 10 percent of domestic production.

It is, therefore, recommended and urged that the 12.2 ratio be reduced to 10 percent beginning July 1, 1965.

Recommendation No. 2 Inclusion within the allowable relationship of all non-residual imports such as shipments from Puerto Rico, bonded imports of distillate fuel, and bonded imports of jet fuel for commercial use until all such imports are eliminated

Light petroleum products are readily available in all areas of the United States where domestic refineries have operated substantially below capacity for the past several years.

Imports of light products have a more serious adverse effect on the domestic industry than imports of crude oil and light product imports should

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be phased out. This applies particularly to bonded imports of jet fuel for commercial use which have been increasing and should be diverted immediately to domestic sources.

It is, therefore, recommended that until eliminated, all imports of light products be included within the allowable relationships in Districts I-IV.

Recommendation No. 3 Elimination of estimating procedures by basing import relationships on actual production during prior periods

In order to eliminate uncertainty and to provide an assured relationship, the program should be revised so as to base imports on actual production during the corresponding period in the previous year. This procedure was followed in the allocation period covering the first half of 1963 and it should be reinstituted. It has the advantage of providing advance notice as to the import levels for a given allocation period thereby enabling all concerned to plan their operations accordingly.

In addition and more important, it assures that imports will not increase until there has been an increase in domestic production.

Recommendation No. 4 Base the quantity of overland imports on certification from importing companies, rather than estimates by the Interior Department

Estimated volumes of overland imports are deducted from the total import level before allocations for overseas imports are determined. Since estimates of overland imports made by the Interior Department have usually been below actual overland receipts, the volume of overseas imports allocated has been high by the amount of this underestimation. During the first half of 1963, the estimate of overland imports (excluding residual) into Districts I-IV

was low by 6,000 barrels daily. In District V the underestimation was some 4,000 barrels daily making a total of some 10,000 barrels daily for the total United States. Overseas imports, therefore, were correspondingly high by a similar volume. During the last half of 1963, the estimate for Districts I-IV was low compared to actual overland receipts by some 9,000 barrels daily and West Coast receipts were slightly below the estimate - 1,760 barrels daily. During the first half of 1964, the estimate for Districts I-IV was under actual overland receipts by about 16,500 barrels daily and the West Coast estimate was under actual receipts by about 4,000 barrels daily. During the last half of 1964, the District I-IV estimate was below actual receipts by 4,600 barrels daily. In District V, actual imports exceeded the estimate by 5,000 barrels daily, making a total of almost 10,000 barrels daily for the total United States.

Since subsequent corrections are not made for the difference between actual and estimated overland receipts, total imports are consistently permitted to exceed the allowable ratio to domestic production.

It is recommended that certifications of overland imports be obtained from importing companies; and that these certifications, rather than estimates, be used in determining allowable overseas imports.

Recommendation No. 5 Phase out and eliminate imports of light finished products that are unnecessary and should be supplied by domestic oil

Under the oil import regulations, importers of light finished products receive an allocation based on volumes imported seven years ago under the Voluntary Import Program. These imports of finished products total 76,634 barrels daily in Districts I-IV, and 6,813 barrels daily in District V.

Light finished products are readily available from domestic refineries. In addition, it is unnecessary and inequitable to perpetuate a historic position established many years ago by a few importers.

It is recommended that these imports of light finished products be phased out and eliminated.

Recommendation No. 6 Eliminate the importation of unfinished oils which developed as a means of circumventing the voluntary import program

Importation of unfinished oils was negligible prior to the Voluntary Oil Import Program (July 1957-March 1959). Under the voluntary plan, there were no restrictions on the importation of unfinished oils, and the record conclusively shows that circumvention of the plan by substantial increases in these imports was one of the factors that brought about the need for the Mandatory Program. Unfinished oils imported into Districts I-IV rose from less than 3,000 barrels daily in 1957 to 128,000 barrels daily during the first quarter of 1959 - the quarter immediately preceding the imposition of mandatory controls.

Despite the option in the Mandatory Program that unfinished oil imports can be as much as 10 percent of the total crude and unfinished oil allocation, the importation of unfinished oils has been substantially less than the 10 percent limitation. These imports are not needed or justified.

It is recommended that the oil import regulations be amended to eliminate the option to import unfinished oils.

Recommendation No. 7 Accelerate the reduction of historic import allocations toward prompt elimination and continue to allocate to all refiners in the interest of equity

The IPAA supports the position stated in the Presidential Proclamation

of November 30, 1962, that historic allocations be progressively reduced until eliminated.

It is recommended that the elimination of historic allocations be accelerated so that in the interest of fair and equitable distribution imports will be allocated to all refiners on a refinery input basis.

Recommendation No. 8 Use of full capacity of all pipelines into District V from other domestic areas in determining available supply in setting import allowables: creation of incentives for additional District V production, additional movements from Districts I-IV, and new pipelines into District V by private enterprise; and elimination of shipments from District V to Districts I-IV in calculating the demand on which District V imports are based

In estimating supply available to the West Coast, the use of less than rated capacity for both crude oil and product pipelines serving the area results in larger imports than would otherwise be required. Full capacity should be used in estimating supply thereby providing incentives to increase local production, to maximize shipments through existing pipelines, to increase the capacity of these pipelines, and to encourage private enterprise to construct additional pipelines.

Under the present program, shipments from the West Coast to the East Coast are treated as demand in District V and, therefore, result in additional imports. It is not logical that District V, a region with deficit local production, should be encouraged to ship oil to the East Coast where ample supply is readily available. Shipments from District V constitute prima facie evidence that oil in excess of District V requirements is available.

It is further recommended that additional incentives be provided in the program which will encourage increased productive capacity in District V and

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increased movements from Districts I-IV into District V.

Recommendation No. 9 Elimination of jet fuel and all other non-residual imports for military use, with a corresponding reduction in total imports

Under the historic provision in the oil import regulations pertaining to the importation of light finished products, the U. S. military has in each allocation period been granted an allocation of 30,554 barrels daily in Districts I-IV and 3,876 barrels daily in District V. The military uses this allocation to import jet fuel for use by military aircraft at United States airbases.

Since the basis for the oil import program is the repeated findings and determinations that such controls were necessary in order that imports would not threaten to impair the national security, the importation by the military of jet fuel for use within the United States runs counter to the spirit and intent of the import program.

It is recommended and strongly urged that these imports be eliminated and that total allowable imports be reduced by a corresponding amount.

Recommendation No. 10 Treatment of U. S. military purchases of light petroleum products from foreign scurces as imports which would be deducted from the total permissible import level

United States military purchases of light petroleum products from abroad have steadily increased and in 1964, averaged 210,000 barrels per day or 35 percent of total military purchases of these products.

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U. S. Military Purchases of Foreign Oil
(Excluding Residual Fuel Oil)

Fiscal Year	Barrels Daily	Percent of Total Domestic and Foreign Purchases
1954	46,000	13.0
1955	89,000	22.5
1956	109,000	25.2
1957	127,000	25.9
1958	145,000	31.9
1959	169,000	29.9
1960	164,000	30.5
1961	184,000	32.8
1962	203,000	33.4
1963	210,000	34.4
1964	210,000	34.8

Source: Department of Defense

This continuous trend of increasing purchases from foreign sources is in conflict with the objectives of the Oil Import Program. It is submitted that these foreign purchases should be reduced to a ratio no greater than that existing prior to the declining trends in the domestic industry. To this end, it is requested that the Secretary of the Interior urge the Secretary of Defense to divert, as a minimum, 100,000 barrels daily of these purchases to domestic sources.

In addition, it is recommended and urged that any of the more than 200,000 barrels daily of U. S. military purchases of light products from foreign sources, which are not diverted to domestic sources, be treated as imports and deducted from total permissible imports.

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Recommendation No. 11 Rejection and prevention of the proposed use of foreign-trade zones within the Continental United States for importation of petrochemical feedstocks or other petroleum raw materials in circumvention of the intent and purpose of the program

Petroleum feedstocks for petrochemical plants in the United States represent a substantial and increasingly important market for the domestic petroleum industry.

Under the Government's Mandatory Oil Import Program, imports of crude petroleum, unfinished oil, and finished petroleum products are limited in the interest of national security. These limitations cover the importation of petroleum petrochemical feedstocks. All petrochemical plants in the Continental United States, therefore, now use domestically produced feedstocks or foreign feedstocks subject to the limitations of the Oil Import Program.

Shipments of petroleum feedstocks into a foreign-trade zone in the United States, if not covered by the Mandatory Oil Import Program, would circumvent the purposes and intent of that program. Under such circumstances, the use of foreign-trade zone procedures could result in a very substantial diversion to foreign sources.

A proposal by the Union Carbide Corporation to erect and operate a petrochemical plant in a subzone of Foreign-Trade Zone No. 2, New Orleans, Louisiana, utilizing feedstocks of foreign origin, is now before the Foreign-Trade Zones Board.

It is recommended and urged that the Department of the Interior oppose this or any other similar proposal unless shipments of foreign source feedstocks into the zone are included within the Mandatory Oil Import Program.

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STATEMENT OF SAM H. CASEY, PRESIDENT

COMMONWEALTH OIL REFINING COMPANY, INC.

Washington, D.C.

March, 1965

Commonwealth Oil Refining Company, Inc. is a Puerto Rican corporation organized in May, 1953, under the laws of the Commonwealth of Puerto Rico. It is an independent, nonintegrated company operating entirely in Puerto Rico. Its organization and its facilities are focused upon oil refining and petrochemical manufacturing operations on the Island. Commonwealth Oil was established under the Economic Development Program of the Commonwealth of Puerto Rico at a time when major oil companies showed very little interest in creating an Island refining industry. During its early life Commonwealth Oil encountered substantial difficulties in getting started and it was only relatively recently that it emerged as a viable operation.

It is the largest single industrial enterprise in Puerto Rico. It has contributed and continues to contribute significantly to the economy of the Island. Commonwealth Oil's refinery came on stream in 1956. The Company employed an average of 323 persons that year and had an annual payroll of $1,700,000. Today it has 917 employees and an annual payroll of $6,100,000. Its existence has been responsible for thousands of additional jobs on the Island. The Company's total investment in oil refining has now

grown to over $100,000,000 and its refinery located near Ponce has a capacity of 115,000 barrels per day. New investments actually made during our 9 years of operation totaled at the end of 1964 approximately $65 million which is $14 million more than our total net earnings of approximately $51 million during this period. All of this added investment was made in Puerto Rico. In addition, an investment of $41,000,000 is being made in a petrochemical facility now being built. This facility will be completed approximately three months from now.

Shipments to the Continental United States

The refinery of Commonwealth Oil was built prior to oil import controls. From the beginning it was recognized by the Company and the Puerto Rican Government that Puerto Rico itself could not support a full scale Island oil refinery to manufacture petroleum products for the Puerto Rican market alone and that such an oil refinery had to and has to have access to continental United States markets. Access to those markets was recognized as essential to support an economic scale of oil refining operations and to provide a balance between the refinery's petroleum product yields and the mix of petroleum products that had to and has to be provided for local distribution.

At the time the Mandatory Oil Import Program was established Puerto Rican refineries were operating entirely on imported crude and product shipments to the United States had been established. In recognition of the above, the Oil Import Program for Puerto Rico, from the outset, provided that the Puerto Rican refineries should have quotas equal to their requirements, including shipments to the mainland; and that such quotas would be increased over time in accordance with increases in local demand and in foreign export demand.

That arrangement which has worked well was based on two primary considerations. First, with Puerto Rico being included within United States customs territory as a long-established principle of Federal policy and law, the flow of goods between Puerto Rico and the United States has been free of restrictions. This freedom of trade is regarded by Puerto Rican industry as the keystone of United States-Puerto Rican economic relations. The imposition of any direct limitations on product movements or the treatment of such trade as though it were foreign commerce would be contrary to the basic relationship and understandings that exist.

Second, in gearing quota increases to increases in local demand and in foreign export demand, it was clearly intended that the established movement of products from Puerto Rico to the United States could and would be continued but that such movement should not be unduly increased in circumvention of United States oil import controls so as to threaten to disrupt the purposes of the Oil Import Program. The policy for Puerto Rico, therefore, was one of full access to foreign crude for existing operations, with quota increases in line with the expansion of local and foreign export requirements.

That policy and the regulations established pursuant thereto have constituted the basis for Commonwealth Oil's current operations and for its future planning. Shipments to the United States from Puerto Rico have been held within limits set by U. S. oil import policy. Meanwhile refining capacity has been progressively expanded by Commonwealth Oil in order to meet the Company's obligation to supply local demand. The most recent expansion began early in 1963 and increased the refinery's capacity from 90,000 to 115,000 barrels daily. It was undertaken so that the Company would be able to meet the increases in Puerto Rican demand which it would in the future be called upon to supply and to provide a broader base of petrochemical feedstocks

for further manufacturing in Puerto Rico. In addition, the Company would be able to supply additional amounts of petroleum products for foreign shipments. Under present oil import regulations, quota is and would be available to this Company to support its established trade with the United States and local and foreign demand as they develop.

In short, the Company's refinery expansion was predicated on the principle that if demand expands as anticipated, quota would be available and the expanded capacity utilized. If either quota or United States shipments are arbitrarily reduced as compared with what is now provided for under the regulations, the effect would be to undermine the effective utilization of its capacity.

The position of Commonwealth Oil as an independent Puerto Rican refiner is far different from that of mainland refiners. Mainland refiners in contrast to Commonwealth Oil are in a position to operate on a combination of imported and domestic crude, the economics of their operations being related to market trends and United States crude and product prices. As an independent, nonintegrated Puerto Rican refining company, Commonwealth Oil could not purchase United States crudes at wellhead prices, transport such crudes to Puerto Rico and refine and

market products to meet the pattern of Puerto Rican demand at Puerto Rican product price realizations.

In this connection we stress that Commonwealth Oil has neither direct access to its own crude production nor to its own market outlets. Its raw material supplies are obtained under long-term contracts that have been negotiated with various oil companies. In general, it sells its products under long-term contracts at prices related to world markets. It is, therefore, exposed to market variations in crude and product prices. The Company's optimum economic utilization of its refining capacity is thus crucial to the Company's over-all profitability.

The refinery is now operating at less than 80% of capacity; and we expect that the operating rate will improve with the expansion of local demand. If the Company is to remain viable, and if investments made in good faith are not to be denied the opportunity of earning a reasonable return, Commonwealth Oil must be permitted to continue to supply products for shipments to the United States. Certainly, shipments from Puerto Rico to the United States will not be treated as foreign commerce.

New Refineries

Commonwealth Oil continues to confidently anticipate continued rapid expansion of the Puerto Rican oil economy. The Company expects to participate and share in that expansion. It

also expects that the Island's refining industry will in due course be broadened out. Commonwealth Oil has no compunctions about such expansion of the industry, nor does it resist such competition.

It also believes, however, that if the Proclamation and Regulation are revised to accommodate new refineries the already established refining industry in Puerto Rico must receive government consideration. Capacity installed in keeping with Commonwealth Oil's responsibility to provide for continuing growth in Puerto Rican requirements should not suddenly be rendered surplus through government decision.

Petrochemical Complex

Commonwealth Oil has long recognized that petrochemical processing could make a valuable contribution to Puerto Rican industrial expansion and that the construction of petrochemical facilities would be a logical and natural step for it as a Puerto Rican refiner to take. Starting with its refinery as a base -- considering the facilities, processes and potential feedstocks that would thus be available -- the Company has over recent years, and in fact as soon as it was financially able to do so, explored a great many avenues for laying the basis of a sound petrochemical complex on the Island. In November, 1963, Commonwealth Oil announced its plans to build an aromatics petrochemical plant, which was accomplished in a joint announcement with Mr. Rafael Durand of EDA. We have since that date continued to keep officials of the Commonwealth of Puerto Rico and of the Department of the Interior advised of our plans and progress.

Initial capital commitments of over $41,000,000 have been made. Our petrochemical facility will come on stream by July, 1965, just a little over three months from now.

Its primary products and its capacity of each will be as follows:

	Gallons per Year
Benzene	104,000,000
Toluene	10,000,000
Xylenes	48,000,000
Ortho-xylene	10,000,000

These are primary building blocks for a broad chemical process industry in Puerto Rico. Our basic aromatic facility has already attracted satellite chemical plants. Commitments have been made for the construction of a para-xylene plant to be built by Hercules Powder Company and Commonwealth Petrochemicals, Inc. in a joint interest company and to be completed in 1966. This satellite plant will produce per year 100 million pounds of para-xylene, which is an important raw material for polyester fiber and film manufacture. In addition, another satellite plant will be built to produce 30,000,000 gallons a year of cyclohexane, a basic raw material in nylon manufacture. That plant should be on stream in 1966.

The basic petrochemical facility will employ an additional 350 people and increase the total annual payroll of Commonwealth Oil and its subsidiary by $1,700,000 making a total of $7,800,000. Over 1,800 workers have been employed in its construction at a payroll cost of $9,059,000. Approximately an additional 100 workers, at a payroll cost of $580,000 annually,

will be employed by the para-xylene plant. The cyclohexane plant will employ another 50 workers and add $290,000 annually to the payroll. Commitments already made, therefore, will result in the direct permanent employment of 500 more workers in those plants and increase Puerto Rican annual payroll income by $2,570,000.

Commonwealth Petrochemicals will have available adequate supplies of ortho-xylene for the phthalic anhydride plant being constructed in Puerto Rico. Phthalic anhydride is used in the production of resins, plasticizers, insect repellents and detergents. We understand that this plant will come on stream by October, 1965, creating many new jobs.

We anticipate that additional joint ventures, as well as the construction of satellite plants by others, will soon be announced, to operate on feedstocks from our core complex. Commonwealth continues to be in a position to consider investing in additional joint ventures, where its interest would be up to 50% ownership, in order to bring desirable satellite facilities to the Island. Commonwealth Oil has found that, as an independent Puerto Rican company, it has certain advantages in attracting satellite plants since chemical companies do not regard it as a competitor for secret know-how or market position.

We are currently reviewing with others a number of additional promising satellite projects involving both the next imme-

diate stage of petrochemical operation as well as subsequent stages of processing and manufacture. The products include -

Ethylbenzene
Meta-xylene
Ethylene
Propylene and
Diolefin concentrates
Amonia and urea
Methanol
Vinyl chloride and PVC
Polyethylene and polypropylene resins and films
Stereo-regular rubbers
Styrene monomer and polymer
Acrylonitrile
Nylon intermediates and nylon spinning
Polyester fibers

The construction of those plants would require that additional financial commitments be made in Puerto Rico of approximately $245 million. Together they would employ 4,000 more workers.

The greatest increase in employment, of course, will come when the products flowing from the chemical process plants described above are used by manufacturing plants producing such goods as fabrics and plastic products. We estimate that increased employment in those industries could be in excess of 35,000.

Commonwealth Oil believes that from a possible minimum investment in petrochemicals by it and its subsidiaries of $75 million a five-fold increase in investment of $350,000,000 in other areas of the Puerto Rican chemical and textile industries can be estimated.

Commonwealth
4000
245,000,000
61,000
310,000,000
2,815
3235
approx $ 5,500/employee

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Export Markets

This petrochemical project will also open the door to substantial new export markets for the products of Puerto Rican labor. In support of the petrochemical plant itself Commonwealth Petrochemicals has entered into a contract with the Shell Group of companies for the sale of a major part of the output of the aromatics plant until the Puerto Rican markets develop. We understand that the Shell Group plans to place a significant volume of these petrochemicals in Europe and not in the continental United States. That will have a favorable effect on the balance of trade of the Island and of the United States and on United States balance of payments problems. The contractual arrangement with the Shell Group is a flexible one. As additional satellites are built in Puerto Rico and the Puerto Rican demand for petrochemicals, which is now relatively small, increases, Commonwealth Petrochemicals can reduce its commitments to the Shell Group for export and thus provide as needed the building blocks which are essential to the creation of the large-scale chemical and textile operations which I have described.

Feedstocks and Shipments to the United States

Feedstocks for our basic aromatic facility will come from two sources. First, a stream will run from the existing

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oil refinery to the petrochemical facility and then return to the oil refining units after petrochemicals have been removed. That stream will be made in the refinery from crude oil imported by Commonwealth Oil from Venezuela under its present quota. In addition, a stream of 26,000 B/D of unfinished naphtha must be imported under additional quota allocations. All of that unfinished naphtha will be of Venezuelan origin.

Since the project qualifies for quota allocations under the Presidential Proclamation and Regulation, we have applied for the quota required during the January-June 1965 allocation period. Commonwealth's petrochemical facility can operate within the current Proclamation and Regulation, although we urge that changes be made so as to clearly provide the quotas of crude oil and unfinished oils required to meet the total feedstock needs of petrochemical operations in Puerto Rico.

We are aware of your decision to take action under the Oil Import Program to encourage petrochemical complexes in Puerto Rico. Commonwealth Oil, as I testified in the July 1964 hearings, has not opposed and does not oppose any other petrochemical project for Puerto Rico, including the Phillips proposal. If the Proclamation and Regulation are amended to further encourage Puerto Rican petrochemical development, we, of course, anticipate

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that our petrochemical facility will continue to qualify for its quota requirements under such revised regulations. Certainly we would expect the same treatment as may other kraft & paper, [illegible]

As noted, the established trade with the United States is basic to the economics of our Puerto Rican refining operations. We, therefore, also anticipate that quota allocations for Puerto Rican petrochemical operations will not adversely affect the quota allocations that we otherwise would have earned for our refining operations under the existing Oil Import Program and which have been the basis for our refinery investment.

J-66, Supplemental Statement of Durand,
March 22, 1976

COMMONWEALTH OF PUERTO RICO
ECONOMIC DEVELOPMENT ADMINISTRATION
P. O. BOX 2672
SAN JUAN, PUERTO RICO - 00903

J-66
E 885

Supplemental Statement of Rafael Durand, Administrator, Economic Development Administration, Commonwealth of Puerto Rico, In The Matter Of Oil Imports Into Puerto Rico

During the March 10-12, 1965 public hearings on the United States Oil Import Control Program numerous suggestions were made for a basic transformation of the control program as it pertains to Puerto Rico. These suggestions, if adopted, would have the practical effect of removing controls on imports of crude and unfinished oils into Puerto Rico and supplanting such controls with a system which would place quantitative limits on the shipment of petroleum products from Puerto Rico to the United States. These suggestions parallel a number which were made during the July 31, 1964 public hearing conducted by the U.S. Oil Import Administration on the oil import control program as it pertains to Puerto Rico.

The importance attached by the Commonwealth Government to the free movement of goods between Puerto Rico and the United States was expressed as follows in my July 31, 1964 oral testimony:

"Our progress to date, it should be acknowledged, is the result not only of the rising productivity of the Puerto Rican worker but of the nature of Puerto Rico's association with the United States which has facilitated Puerto Rico's development, making possible the free movement of people, goods and capital between the island and the continent." (page 8; second paragraph; last full sentence; emphasis added).

The significance which we attach to this basic matter of policy was amplified as follows in my supplemental statement of August 24, 1964:

"But for the fact of this free movement of goods there would probably be no petroleum refining industry in Puerto Rico today. The initial plans of both existing companies were based on the shipment of relatively substantial

product volumes to the Mainland. These plans in turn reflected the structure of local product demand. The structure of that demand was, and remains, quite different from that in the U.S. Specifically, the product in greatest demand locally, and by a wide margin, was and continues to be residual fuel oil. Local demand for distillates will always be small. Hence, refinery economics dictated a relatively substantial volume of light product movement to the U.S. This, of course, had to be qualified upon the establishment of import controls.

"Presidential Proclamation #3279 recognized the particular structure of local product demand by making provision for "limited shipments" of Puerto Rican-refined petroleum products to the U.S. The construction we have put upon this language in the Proclamation was and is that such shipments shall not be "unlimited". That is, as was noted earlier, the level of such shipments should not rise to a point such as to undermine the Districts I-IV control system. However, we would resist, as was suggested during the public hearing, the imposition of direct quantitative controls on the shipment of Puerto Rican-refined products to the U.S.

"This matter has arisen in the past, and it is our understanding that the Department lacks the necessary authority to impose such controls. Our concern, however, is not with legal technicalities but with matters of policy fundamental to Puerto Rico's continued economic growth.

"The exercise by the Department of the control system regulating Puerto Rican imports has, we would suggest, worked satisfactorily to date. Supplanting this system with one regulating Puerto Rican product shipments would, we suggest, be basically no more efficient than the present control system and, additionally, would, we are certain, inflict incalculable damage on Puerto Rico's economic growth prospects.

"Petroleum products are not the only so-called "sensitive" items in the U.S. economy which are produced in Puerto Rico and sold in the U.S. There are many others. To place direct quantitative controls on shipments of Puerto Rican-refined products to the mainland would be to breach the nature of Puerto Rico's association with the United States and to place Puerto Rico on the "Procrustean bed" of ever-increasing restrictions on its commerce with the United States."

March 22, 1965

J-67, Letter, Learned to Udall, March 22, 1965

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-67

FPI MI—9-24-75-50M-4417

PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

STANLEY LEARNED
PRESIDENT

March 22, 1965

The Honorable Stewart L. Udall
U.S. Department of the Interior
Washington, D. C.

Dear Secretary Udall:

On behalf of Phillips Petroleum Company, I wish to submit the following comments and summation of our company's position on the Mandatory Oil Import Program and request that this letter be made a part of the record of the March 10, 11, and 12, 1965 public hearings on this subject, at the close of which it was announced that the record would be held open for this purpose.

A. General

1. Imports (including imports from Canada and Mexico) of crude oil, unfinished oils and refined products, including residual fuel oil, into the United States should be restricted to a reasonable percentage of U. S. production of crude oil and natural gas liquids.

2. Separate treatment of District V should be eliminated and, after allowing for Puerto Rican requirements, allocate the remainder of the permissible imports to all five districts in accordance with the basis now extant in Districts I-IV with the following modifications:

   a. The right to import all categories of petroleum products (i.e., crude oil, unfinished oil, refined products and residual fuel oil) should be granted only to domestic refiners and the permitted quantities allocated among them on the basis of refinery runs.

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b. The granting of import allocations to historical importers based on their historical imports should be completely eliminated. (The present policy of excluding refinery runs of imported crude oil and unfinished oils, which are free from import restrictions in calculating import allocations, should be continued.)

c. The refinery run sliding scale formula should be eliminated and allocations fixed in direct proportion to refinery runs.

We believe that adoption of the above will eliminate the significant inequities and put the Mandatory Oil Import Program on a sound basis in keeping with the purpose declared in President Eisenhower's proclamation of 1959 initiating it; that is, "...to insure a stable, healthy industry in the U. S. capable of exploring for and developing new hemisphere reserves to replace those being depleted."

B. Phillips Puerto Rican Petrochemical Project

Oral testimony made or statements filed at the hearing on March 10 to 12th contained numerous objections to the Phillips Puerto Rican petrochemical project. These mainly bore on four points which our competitors incorrectly analyzed or purposely distorted. Therefore, we wish to comment on these four points as follows:

1. Approval of the Puerto Rican Project would be Consistent with the National Security Objectives of the Import Control Program.

A primary aim of the national security clause which forms the ~~underlying~~ basis for the mandatory control program is "the maintenance of a strong internal economy as an integral part of our national security."* The unique relationship existing between the United States and Puerto Rico points up the need for overcoming the economic factors which threaten the well-being of the Commonwealth. Secretary Udall has determined that the establishment of the proposed petrochemical

*S.Rep. No. 1838, 85th Cong., 2d Sess. 12 (1958).

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complex could contribute substantially to a solution of the serious economic difficulties and the mounting unemployment faced by Puerto Rico and has stated that the project can be handled without increases in net receipts of petroleum and petroleum products from foreign areas.

Not only can the Puerto Rican project be accommodated without disruption of the oil import program but also the project will result in the creation of an estimated 33,000 direct employment opportunities and an additional 66,000 indirect employment opportunities. This is a substantial contribution to the national security. Further, a vigorous Puerto Rican economy will pose a striking contrast to Cuba for the people of Latin American and the world to behold.

2. Approval of the Puerto Rican Project will not Undermine the Oil Import Program.

The concern expressed in some quarters that approval of the Puerto Rican project would undermine the oil import program is unfounded. In fact, the manner in which the Secretary of the Interior is evaluating this proposal is in itself the most concrete evidence possible that the alarms are merely a sham intended to frustrate the project. The very essence of the test applied to the Puerto Rican project is that it will not affect the integrity of the oil import program.

The Secretary of the Interior has made it clear that it is not the intention of the Department to seek any adjustments in the program which will increase the receipts of petroleum and petroleum products from foreign areas. He has also made it clear that the proposal is being scrutinized in the light of its potential contribution to the national security objectives of the program.

3. The Puerto Rican Project will not Disrupt Conditions in the Industry.

There is no justification for the fears that the Puerto Rican project would be harmful to U. S. producers or would aggravate marketing problems on the East Coast. Secretary Udall has stated that it would be the Department's intention "to seek adjustments to the program to insure that net receipts in the United States of petroleum and petroleum products from foreign areas would not be increased."

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Although the Puerto Rican project provides for the shipment of gasoline into East Coast markets, this market will easily be able to absorb such shipments without difficulty. Gasoline shipments are not expected to begin until eighteen to twenty-four months after grant of allocation. Phillips embarked on planned program of expansion in gasoline marketing on the East Coast several years ago. It is not expected that the Puerto Rican project will accelerate Phillips plans for expansion in this part of the country. Approaching a maximum level of gasoline shipments of 24,800 barrels per day over a six-year period is equivalent to a growth of 500 gallons per day for each day of the six-year period. The addition of this amount of gasoline to the East Coast supply certainly cannot be called "dumping", for Phillips growth alone in this market over this period will far exceed 500 gallons each day.

In addition, Phillips plans to market petroleum products in Puerto Rico and to the extent that the growing Puerto Rican market can be developed there will be a corresponding reduction of motor fuel shipments by Phillips to the East Coast.

4. The Puerto Rican Project would not Result in Preferential Treatment to Phillips.

A number of companies have indicated that approval of the Puerto Rican project would single out Phillips Petroleum Company for favored treatment. This is not the case. While the project proposed by Phillips involves the importation of foreign chargestock, the substantial commitments to which the Company will bind itself represents a substantial corresponding risk. The proposed Puerto Rican project commits Phillips to invest as a minimum $100 million in Puerto Rico. This investment will provide the basis for the creation of thousands of job opportunities for the people of Puerto Rico. The risk taken by Phillips is underscored by today's rapidly changing technology in the field of petrochemicals and by the fact that no other company has desired to undertake the risk necessary to meet Puerto Rico's urgent economic requirements.

At the hearing of July 31, 1964, Mr. Rafael Durand of the Economic Development Administration of the Commonwealth of Puerto Rico

testified that during the past three years EDA has discussed with several oil companies the possibility of building a petrochemicals-oriented core facility in Puerto Rico, that all proposals had been judged on the same criteria, and that only the Phillips proposal had responded to the requirements of Puerto Rico. We in Phillips are pleased that our experience and ability enabled us to develop the one petrochemical proposal meeting Puerto Rico's requirements. None of the dissentors to the Phillips Puerto Rican proposal indicated that they would be willing to build a petrochemical project in Puerto Rico under the commitments which Phillips has accepted. All they would accomplish is to deny the progress this project would allow in Puerto Rico.

Yours very truly,

Stanley Learned

J-68, Press release by the Office of the Secretary of the Interior, May 14, 1965

UNITED STATES
DEPARTMENT of the INTERIOR

news release

OFFICE OF THE SECRETARY

Par. 63 Wood -- 343-3171 J-68

For Release MAY 14, 1965

INTERIOR RELEASES CORRESPONDENCE ON PUERTO RICAN PETROCHEMICAL COMPLEX

The Department of the Interior today released the text of letters from Secretary Stewart L. Udall to Governor Roberto Sanchez Vilella of Puerto Rico, and Mr. Stanley Learned, President of the Phillips Petroleum Company, Bartlesville, Oklahoma, relative to the establishment of a petrochemical industry on Puerto Rico.

Under the terms of the letter, the Phillips Petroleum Company and the Commonwealth will present to the Department binding arrangements for the development of petrochemical producing and processing facilities on Puerto Rico, involving expenditure of $100 million.

On receipt of evidence of these arrangements, the Department will recommend changes in the oil import control program to permit Phillips to import feedstocks for the planned facility.

According to the terms of the letters, the Company anticipates and will use its best efforts to accelerate the investment period to six years and to expand the investment program to a level of $218 million. The $218 million investment program and its timing will be dependent upon the success of Phillips in developing working arrangements with other firms.

The Department is currently considering several alternatives for fitting Puerto Rican petrochemical development within the over-all framework of the oil import program. The Department's objective is to provide material assistance to the economy of Puerto Rico and to aid in reducing the high rate of unemployment prevalent in certain parts of the Island. This will be accomplished without disruption to the oil import program.

Concurrently, the Department is studying alternatives for an "open door" policy for new petrochemical facilities on the Island as its economy advances.

The text of the letter is attached.

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P.M. 53875-65

J-69, Letter, Secretary Udall to Governor Roberto Sanchez Vilella, May 11, 1965

J-69

May 11, 1965

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Gentlemen:

On May 1, 1964 Phillips Petroleum Company (Phillips) presented to the Department of the Interior (Department) a project for the establishment of a petrochemical complex in Puerto Rico involving the importation into Puerto Rico of 50,000 barrels per day of unfinished oils. Subsequent to the receipt of this request, the Government of the Commonwealth of Puerto Rico (Commonwealth) through its Economic Development Administration made strong representations to the Department endorsing the Phillips proposal. The Commonwealth pointed out the unfavorable economic outlook for Puerto Rico and the stimulus to economic growth in the Commonwealth that could be provided by the establishment of a petrochemical complex on the Island.

As a result of these representations, I announced a public hearing to be held in Washington, D. C., on July 31, 1964, to receive testimony and comments on all phases of the Mandatory Oil Import Program related to imports of crude oil, unfinished oil, and finished petroleum products into Puerto Rico. The hearing was noticed and all persons interested were invited to appear and present testimony and evidence.

At the hearing held on July 31, 1964, Phillips presented detailed testimony and evidence in support of its proposal. The Commonwealth through the Administrator of its Economic Development Administration, Rafael Durand, also presented extensive testimony relating to Puerto Rico's need for the project and the Commonwealth's support of the Phillips proposal. The Department also received testimony and evidence from all other parties desiring to comment on the Phillips proposal, or to offer any other proposals, comments, or suggestions relating to all aspects of the Mandatory Oil Import Program as it affected Puerto Rico. Following close of the hearing the record was held open for a period of twenty-six days for the receipt of additional statements. In addition, at my request field investigations of the proposed project were made in Puerto Rico by the Solicitor of the Department and by the Oil Import Administrator.

As a result of the analysis of the record by the staff of the Department, together with the findings of the Solicitor and the Oil Import Administrator, it was my determination that the establishment of a petrochemical complex in Puerto Rico, as envisaged by the Phillips proposal, would go a long way toward accomplishing the economic objectives of the Commonwealth and should be authorized provided that a plan could be developed for its implementation which would be consistent with the objectives of the Mandatory Oil Import Program.

In light of this determination, on February 11, 1965, after discussions with Governor Sanchez Vilella, I announced that the Department favored the establishment of a major petrochemical complex in Puerto Rico. At

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that time I also announced that the Department would "enter final negotiations with Phillips to ascertain whether a plan can be developed which will insure the building of a major petrochemical complex that will involve a maximum economic benefit and maximum employment opportunity for Puerto Rico." I also stated at that time that in conducting these negotiations the Department would "work closely with, and look for general guidance to, the Governor of Puerto Rico in making any final decisions concerning the Phillips Petroleum proposal."

In the intervening weeks, the Department has maintained a constant liaison with Governor Sanchez and the representatives of the Commonwealth and has conducted a series of negotiations with representatives of Phillips. Negotiations with Phillips were conducted under the supervision of the Assistant Secretary for Mineral Resources with the assistance of personnel of the Oil Import Administration and the Office of the Solicitor. The Bureau of Mines acted as a technical consultant to the personnel representing the Department in these negotiations. It is the Department's conclusion that an economically feasible plan has now been developed which will both strengthen Puerto Rico's economy and preserve the integrity and national security objectives of the Mandatory Oil Import Program.

In summary, Phillips has agreed to the following commitments:

1. Phillips will invest a minimum of $45,000,000, providing a core chemical facility capable of processing 50,000 barrels a day of unfinished oils to yield intermediate products as described by Phillips in the hearings.

2. Phillips will invest all profits from operation of the core chemical facility in construction of satellite plants deriving feedstocks from the core chemical facility, until Phillips has invested an additional sum of $55,000,000 in such satellite plants. If at the end of ten operating years sufficient profits have not been generated to provide the additional sum of $55,000,000, Phillips will invest $5,000,000 a year each year after the tenth operating year until the total of $55,000,000 has been reached. In the event, however, that at the end of six months from date of allocation contractual commitments have not been received for the establishment of satellite plants representing an investment of at least ten million dollars, Phillips will itself make an immediate investment in satellite plants to bring the total so invested to a minimum of ten million dollars, such sum to be an acceleration of its commitment under this paragraph.

3. Phillips will offer to invest a substantial portion of the above-mentioned $55,000,000 in joint ventures.

4. Phillips will offer to Puerto Rican manufacturers the right of first refusal, at competitive prices, for any and all volumes of product yielded from the core chemical facility which otherwise would be sold outside of Puerto Rico.

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5. Phillips will use its best efforts, in cooperation with the Economic Development Administration, to induce chemical companies, with which Phillips is associated world-wide, to build satellite plants in Puerto Rico until such time as all petrochemicals produced by the core facility have been converted to consumer goods in Puerto Rico. Phillips represents that its plans are in conformance with the premises and projections as contained in Exhibit A, attached to and made a part of this subparagraph.

6. Production of motor fuel shall be limited to a maximum of 49.6 percent of net charge stock used.

7. Phillips will offer equity participation in the corporation which owns and operates the core chemical facilities to the Puerto Rican investors up to the amount of 25 percent of such equity. This corporation in turn shall have the right individually or as a joint venturer to invest in one or more satellite plants. In any case where Phillips itself owns or may be a joint venturer in any satellite plant, Phillips will offer Puerto Rican investors equity participation with Phillips in such satellite plant or plants up to the amount of 25 percent of the interest available to Phillips.

In addition, in the course of the negotiations, the Company has described the intent of Phillips, Puerto Rican investors and others to invest additional sums of money in satellite facilities involving higher manpower intensity in the initial stages of operation and to make such additional investment within a shorter period of time than initially contemplated. In keeping with my stated intent to work closely with the Commonwealth in making a final determination, it is the Department's conclusion that the resolution of these details should properly be worked out between Phillips and the Commonwealth. I have received assurances from both parties that negotiations between them have progressed to a stage where an agreement setting forth the basic elements of the project and the mutual obligations of the parties can be concluded rapidly.

In view of the Department's determinations concerning the feasibility and desirability of this project and in view of the Commonwealth's representations as to its needs and the Company's commitments, it is my intent to take all necessary steps and make all necessary recommendations for changes in Proclamation 3279, as amended, which may be required to accommodate the establishment of this petrochemical complex in Puerto Rico. If the Commonwealth and Phillips will present to me an agreement providing for

the execution of a definitive, legally enforceable contract to implement the establishment of the petrochemical complex, I will proceed forthwith to take the necessary steps and make the necessary recommendations mentioned above and thereafter to issue the necessary license in order that an allocation may be made effective at the beginning of the next allocation period. The allocation granted to Phillips for the purposes and under the conditions stated above shall be for a period of ten years from the date of start-up and operation of the core chemical facility, or until Phillips ceases to reinvest its total profits from its Puerto Rican core chemical facility in satellite or other facilities acceptable to the Commonwealth, whichever date is earlier. Thereafter, Phillips shall be subject to such regulations as may be generally applicable to petroleum imports into Puerto Rico, except that allocations shall be granted consistent with the requirements of the Puerto Rican petrochemical industry and the percentage yield of finished gasoline produced in accordance with paragraph 6 above shall be subject to renegotiation.

It is understood, of course, that no part of the allocation will actually be used by Phillips until its core plant is ready to go on stream and except as charge stock for the core plant.

Sincerely yours,

(Sgd) Stewart L. Udall

Stewart L. Udall
Secretary of the Interior

Honorable Roberto Sanchez Vilella
Governor, Commonwealth of Puerto Rico
San Juan, Puerto Rico
and
Mr. Stanley Learned, President
Phillips Petroleum Company
Bartlesville, Oklahoma

J-70, Agreement between Phillips and the Commonwealth of Puerto Rico, May 27, 1965

J-70

May 27, 1965

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AGREEMENT

OBJECTIVES AND PREMISES

First, Phillips Petroleum Company desires to establish a corporation to operate a core petrochemical facility in Puerto Rico as a basis for the establishment in Puerto Rico of satellite manufacturing plants producing intermediate chemical and consumer goods. Because of the benefits which the proposed petrochemical complex would provide for the economy of Puerto Rico, the Government of the Commonwealth of Puerto Rico is willing to offer tax exemption to such corporation, to participate in the financing of this project, to lend its support for an oil import allocation to Phillips Petroleum Company by the United States Department of the Interior necessary to sustain this project, and to lend its full assistance and cooperation to Phillips Petroleum Company to implement this proposal. Additionally, both the Commonwealth Government and Phillips Petroleum Company desire that the Commonwealth Government have equity interests in the corporation owning and operating the core chemical facility and in related satellite manufacturing plants.

Second, The core chemical facility proposed to be established in Puerto Rico pursuant to this Agreement, will entail the processing of up to 50,000 barrels per day of selected hydrocarbon fractions. The core facility will provide products such as paraffinic fraction, cyclohexane, benzene, ethyl benzene, orthoxylene, para-xylene, and motor fuel. Except for the motor fuel, the produc

of the core chemical facility would be available for three stages of processing at satellite plants to be located in Puerto Rico, with the resulting production of the following products, among others:

(a) Products of Primary Chemical Processing

Ammonia
Ethylene
Butadiene
Carbon Black Feed
Adipic Acid
Styrene
Phthalic Anhydride
TPA Monomer

(b) Products of Secondary Chemical Processing

Urea
Polyethylene
Rubber
Carbon Black
Nylon 66 Resin
Polystyrene
Polyester Resin

(c) Products of Consumer Products Processing

Urea
Polyethylene Pipe
Polyethylene Film
Polyethylene Bottles
Polyethylene Housewares
Rubber Tires
Nylon 66 Fabric
Polystyrene Housewares
Polystyrene Molding
Polystyrene Forms
Polyester Fabric

Third, The production of the chemical feedstocks and of the chemical and consumer products listed above is projected by Phillips Petroleum Company

to result in the following investment and direct employment in Puerto Rico:

	Investment (Million $)	Employment
(a) Core Petrochemical Processing Facility	45.0	400
(b) Primary Chemical Processing Plants	92.8	610
(c) Secondary Chemical Processing Plants	93.3	1,845
(d) Consumer Products Plants	363.6	30,400
Total	597.7	33,255

Fourth, At least two additional employment opportunities will probably be generated by each employment opportunity directly created by the proposed petrochemical complex. Thus, attainment of the direct employment levels listed above should result in total employment of approximately 100,000 generated by this project.

Fifth, It is the objective of the Government of the Commonwealth of Puer Rico and of Phillips Petroleum Company to implement the proposal described above as promptly as possible. It is also the objective of the Commonwealth Government and of Phillips Petroleum Company to insure that the proposed petrochemical complex will make maximum utilization of the labor force and materials in Puerto Rico and that eventually all of the products of the core facility, except for motor fuel, will be utilized in further processing in Puert Rico. To secure these objectives, the terms and obligations undertaken by the

Commonwealth Government and by Phillips Petroleum Company which are set out in this Agreement will be incorporated into a Commonwealth tax exemption for the corporation owning and operating the core chemical facility pursuant to the provisions of the Puerto Rico Industrial Incentives Act of 1963.

Sixth, The Secretary of the Interior by letter of May 11, 1965, which is attached hereto as Appendix 1, announced the Department's determination that an economically feasible plan had been developed which would both strengthen Puerto Rico's economy and preserve the integrity and national security objectives of the Mandatory Oil Import Program and stated also that if the Government of the Commonwealth of Puerto Rico and Phillips would present to him an agreement providing for the execution of a definitive, legally enforceable contract to implement the establishment of the petrochemical complex, the Secretary would proceed to take all necessary steps and make all necessary recommendations for changes in Proclamation 3279, as amended, which may be required to accommodate establishment of the Phillips Petroleum Company project in Puerto Rico and to issue the necessary license in order that an allocation may be made effective at the beginning of the next allocation period.

Therefore, the Administrator of the Economic Development Administration of the Commonwealth of Puerto Rico and Phillips Petroleum Company have agreed as follows: Upon the grant of an allocation to Phillips for importation of 50,000 barrels a day of unfinished oils into Puerto Rico to be effective for an initial period of ten years from start-up and operation of the core chemical facility

and thereafter subject to such regulations as may be generally applicable to petroleum imports into Puerto Rico, except that allocations shall be granted consistent with the requirements of the Puerto Rican petrochemical industry, the following rights and obligations will obtain:

Obligations of the Parties

Section 1. Obligations of Phillips Petroleum Company.

(a) Phillips Petroleum Company (hereafter: "Phillips") will cause to be formed a corporation to establish, own, and operate a core chemical facility in Puerto Rico capable of processing a minimum of 50,000 barrels a day of unfinished oils. Phillips will own seventy-five (75) percent of the equity in the corporation owning and operating the core chemical facility. Puerto Rico Industrial Development Company (hereafter "PRIDCO") will own twenty-five (25) percent of the equity in the corporation owning and operating the core chemical facility. The corporation owning and operating the core chemical facility, with participation in the equity thereof by Phillips and PRIDCO as set forth above, shall be referred to hereafter as the "CORE".

(b) Phillips will, within thirty (30) days after activation of the CORE, make request to the Department of the Interior that the license granted to Phillips to import 50,000 barrels a day of unfinished oils be transferred to the CORE.

(c) If at the end of ten years from date of start-up and operation of the core chemical facility, sufficient profits of the CORE have not been generated to

provide an investment by the CORE in satellite plants in the amount of $55,000,000 Phillips will invest the additional sum of $5,000,000 a year in satellite plants each year after the tenth operating year until the total investment in satellite plants of $55,000,000 has been reached: Provided, however, that any investment by Phillips in satellite plants shall be credited toward fulfillment of the investment of $55,000,000 referred to in this subsection (c).

(d) In the event that at the end of six (6) months from the date of grant of allocation contractual commitments have not been received for the establishment of satellite plants representing an investment of at least $10,000,000, Phillips will make an immediate commitment to invest in satellite plants to bring the total so committed to a minimum of $10,000,000: Provided, however, that such investment by Phillips shall be credited toward fulfillment of the investment of $55,000,000 referred to in subsection (c).

(e) In the event that at the end of twenty-one (21) months from the date of grant of allocation contractual commitments have not been received for the establishment of satellite plants representing an investment of at least $30,000,000, Phillips will make an immediate commitment to invest in satellite plants to bring the total so committed to a minimum of $30,000,000: Provided, however, that such investment by Phillips shall be credited toward fulfillment of the investment of $55,000,000 referred to in subsection (c).

(f) With respect to sales contracts by the CORE for a period longer than two years as referred to in Paragraph (c) of subsection 2 (f), infra, if the buyer

does not agree to release on one year's notice such product as is required for Puerto Rican use, Phillips will enter into an agreement which shall be made a part of the written sales contract with purchasers for such term which shall indicate that Phillips agrees to substitute product from other sources when quantities are withdrawn for use in Puerto Rico

(g) Phillips will limit its participation (including participation by reason of Phillips ownership of seventy-five (75) percent of the equity of the CORE) in any one satellite to twenty-five (25) percent of the equity of the corporation owning and operating the satellite, and such limitation shall be effective in the instance where PRIDCO fails to exercise all or a portion of its option to participate up to the amount of twenty-five percent of the interest available to Phillips, as provided in subsection (h), infra, of this section: Provided, however, that Phillips' equity participation in any satellite may exceed such twenty-five percent limitation if agreed to by the Administrator of the Economic Development Administration upon a showing by Phillips that such additional participation by Phillips is necessary in order to provide for the most beneficial implementation of the petrochemical complex. If the implementation of the limitation set forth in this Paragraph shall have the effect of rendering impossible reinvestment of profits of the CORE as set forth in Section 2, Paragraph (c), such reinvestment of profits as set forth herein may be deferred until such time as practicable to make such reinvestment, but not later than 10 years after start-up and operation of the core chemical facility: Provided, further, that the limitation of this subsection (g) shall not be applicable to subsection (d) and (e) of this section.

(h) Phillips will offer PRIDCO equity participation with it in any proposed satellite plant up to the amount of twenty-five percent of the interest available to Phillips. PRIDCO's option to participate up to the amount of twenty-five (25) percent of any such interest available to Phillips shall be exercised, if at all, within sixty (60) days of the date upon which information concerning such proposed satellite is made available by Phillips to PRIDCO in the same detail as available to and relied upon by Phillips management in reaching its decision concerning such satellite.

(i) Phillips will cooperate with the Commonwealth to the fullest extent possible in efforts to promote the establishment and development in Puerto Rico of a scientific research center at a site to be determined by the Commonwealth. To the extent feasible, the CORE will locate its research facilities and research activities at the site of the scientific research center rather than at the site of the core petrochemical facility.

Sec. 2 Obligations of the CORE

(a) The CORE will invest a minimum of $45,000,000 and it will make available working capital necessary for the purpose of providing and operating a core chemical facility capable of processing a minimum of 50,000 barrels a day of unfinished oils to yield intermediate products as described by Phillips at the public hearings conducted by the Department of the Interior on July 31, 1964. The CORE shall have the right individually or as a joint venturer to invest in one or more satellite plants: Provided, however, that the right of the CORE to invest in satellites shall be subject to the provisions of subsection (g) of section 1.

(b) The core chemical facility referred to in subsection (a) of this section shall be completed by the CORE not later than twenty-one (21) months from the date of grant of allocation.

(c) The CORE shall reinvest in satellite or other facilities acceptable to the Economic Development Administration a sum equal to all profits of the CORE for a period of ten years subsequent to the date on which the tax exemption provided for by this Agreement takes effect: Provided, however, that any investments made by Phillips, the CORE, or PRIDCO in advance of profits of the CORE shall be credited toward the obligation set forth in this subsection (c), i. e., if at any time investment in satellites or other facilities acceptable to the Economic Development Administration by Phillips, the CORE, or PRIDCO shall exceed the profits of the CORE, no restriction shall be placed upon disposition of profits of the CORE up to the extent of the excess. For the purpose of calculating profits to be reinvested under the terms of this subsection (c), depreciation charged on investment made by the CORE shall not exceed 5 percent per annum.

(d) Production of motor fuel shall be limited to a maximum of 49. 6 percent of net chargestock used.

(e) As raw material for the core chemical facility, feedstock derived from Caribbean crude will be utilized if available at competitive prices.

(f) (1) Manufacturers who are established in Puerto Rico or who have committed themselves by contract to establish in Puerto Rico and who intend to utilize the product for manufacturing operations in Puerto Rico shall be offered

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the right of first refusal, at competitive prices, for any and all volumes of product yielded from the core chemical facility which otherwise would be sold outside of Puerto Rico.

(2) To insure the availability to manufacturers in Puerto Rico of the products (other than motor fuel) of the core chemical facility, contracts of the CORE for off-island sale of products (other than motor fuel) shall be subject to the following conditions:

(A) Products of the core chemical facility may be committed for sales outside of Puerto Rico for periods up to two years with year to year renewal provisions thereafter;

(B) Firm contracts for the sale of any product may be made for not more than 15 percent of any product capacity for not longer than 7 years, or not more than 30 percent of product capacity for not longer than 4 years.

(C) Except for sales contracts executed within the purview of paragraph (B) of this subsection, other contracts exceeding 2 years in term may be made only if the contract between the CORE and the buyer contains a provision that buyer will release, on one year's notice, such product as is required for Puerto Rican use or if Phillips obligates itself to substitute product for the buyer from other sources when quantities are withdrawn for use in Puerto Rico, as referred to in subsection (f) of section 1. Any substitution shall be without penalty to the Puerto Rican buyer or the CORE.

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(3) Upon request of the CORE, the Administrator of the Economic Development Administration may waive the limitations in paragraphs (A), (B), or (C) of this subsection.

(g) The Core shall select a Board of Directors of twelve (12) individuals, at least five (5) of whom shall be Puerto Rican.

(h) Records of purchases, sales and other financial transactions of the CORE shall be made available to the Administrator of the Economic Development Administration upon his direct request. Information given pursuant to request shall be treated as information given in confidence to a Government agency.

(i) The CORE will, to the maximum extent possible and feasible, secure the employment of residents of Puerto Rico for the construction and operation of the core chemical facility and will use its best efforts to encourage satellite plants to maximize employment of residents of Puerto Rico.

Section 3 Additional Obligations of the Commonwealth

(a) The Commonwealth of Puerto Rico will extend to the CORE the maximum tax exemption permissible, under the provisions of the Puerto Rico Industrial Incentives Act of 1963, as amended, for the area in which the core chemical facility is located.

(b) The Commonwealth of Puerto Rico will extend to qualified and acceptable satellite plants generated by and through the petrochemical complex which is the subject of this Agreement, the maximum tax exemption permissible, under the provisions of the Puerto Rico Industrial Incentives Act of 1963, as amended, for the area in which each satellite plant is located.

(c) The Economic Development Administration of the Commonwealth of Puerto Rico will, consistent with the terms of this Agreement and to the best of its ability, cooperate with and assist Phillips and the CORE in the procureme of all necessary Federal, Commonwealth, and local licenses and approvals required to implement and sustain this Agreement.

(d) The Economic Development Administration will, to the best of its ability, cooperate with and assist the CORE in the development and training of manpower required for the successful operation of this core chemical facility.

(e) The Economic Development Administration will, to the best of its ability, cooperate with and assist the CORE in the acquisition of adequate electr power for the core chemical facility at the lowest possible industrial rates, and will, to the best of its ability, cooperate with and assist the CORE in obtaining other public utility services.

(f) The Commonwealth of Puerto Rico will, to the best of its ability, cooperate with, assist and support Phillips in obtaining its requested allocation to import 50,000 barrels a day of unfinished oils into Puerto Rico in time for such grant of allocation to be effective at the beginning of the next allocation period.

Section 4 General Provisions

(a) Maximization of Benefits of Petrochemical Project. Phillips and the Commonwealth will use their best efforts to induce chemical companies to build satellite plants in Puerto Rico until such time as all petrochemicals produced by

the CORE are utilized for the manufacturing of consumer goods in Puerto Rico. In furtherance of this objective, Phillips and the Commonwealth commit themselves to financial participation in satellite plants in the manner and to the extent set forth in this Agreement. "Satellite" plants, as used in this Agreement, shall mean chemical processing and consumer production plants deriving feedstocks from the core chemical facility and/or from other satellite plants. In addition, satellite plants for purposes of Section 1 (c), (d), (e) and Section 2 (c) shall be those satellite plants which are deemed acceptable by the Administrator of the Economic Development Administration as implementing and furthering the objectives and premises of this Agreement.

(b) Hiring of Government Personnel

No person who at any time from January 1, 1961 to the present has been an employee (other than in a clerical or custodial capacity) or an official of the Economic Development Administration or the Office of the Governor of Puerto Rico, including consultants and other retainees, shall thereafter be hired or retained by Phillips, by the CORE, or by any satellite in which Phillips has a controlling interest. In addition, no other employee (other than in a clerical or custodial capacity), official, or retainee of any other agency or instrumentality of the Government of the Commonwealth of Puerto Rico, who has at any time been directly involved, in an official capacity, in duties affecting the establishment of the Phillips Petrochemical Complex shall thereafter be hired or retained by Phillips, by the CORE, or by any satellite in which Phillips has a controlling interest. No person who at any time subsequent to the execution of this Agreeme

shall directly act, in an official capacity, in behalf of the Government of the Commonwealth of Puerto Rico in carrying out the terms of this Agreement shall thereafter be employed or retained by Phillips, the CORE or any satellite in which Phillips has a controlling interest.

(c) Disputes and Arbitration

In the event of a dispute between the parties concerning performance of any obligation under this Agreement, the complaining party shall promptly notify the other party in writing of the alleged failure of performance, and shall allow such party a reasonable period of time in which to remedy such failure. In the event of inability or unwillingness to remedy any alleged failure of performance, the parties shall use their best efforts to dispose of the dispute by voluntary settlement.

In the event of inability to remedy an alleged failure of performance or to arrive at a voluntary settlement of a dispute resulting therefrom, the dispute shall be submitted to Arbitration. Each party shall name one arbitrator, and the two arbitrators so named shall choose a neutral third party not connected with either other party to act as the third arbitrator. In the event that within 30 days after the date the parties have named two arbitrators, such arbitrators are unable to agree upon a third arbitrator, the American Arbitration Association shall be requested to designate the third arbitrator.

The findings of the Arbitration panel shall be conclusive and binding upon the parties as to all questions of fact. The Arbitration panel shall have no

authority to make findings as to any question of law, and any such finding made by it shall be of no force and effect, except as expressly agreed to by the parties with reference to any particular dispute.

The costs of Arbitration shall be borne equally by the parties.

(d) Breach of an Essential Provision

Upon the establishment of a breach by Phillips of an essential provision of this Agreement, the Commonwealth may:

(1) take legal action to suspend or revoke any tax exemption granted to the corporation owning and operating the core chemical facility; and/or

(2) recommend to the Department of the Interior that Phillips license to import feedstock into Puerto Rico be revoked.

Provided, however, that the sanctions set forth above shall not be available to the Commonwealth until the breach of an essential provision shall have first been established by a court of competent jurisdiction and any possible appeals therefrom exhausted: Provided further that notwithstanding any determination of fact under the "Disputes and Arbitration" provision of this Agreement the question whether breach of an essential provision of this Agreement has occurred is deemed to be a question of law: And provided further, that upon a determination by a trial court after proceedings on the merits that there has been a breach of an essential provision of this Agreement such as would warrant the suspension or revocation of the tax exemption granted to the CORE and thereafter

until all possible appeals from the determination of said trial court have been exhausted, the CORE shall set aside in escrow an amount equal to the taxes which would, during the course of appellate review, be due to the Commonwealth in the absence of the tax exemption.

(e) Disclosure by Corporate Officers.

Each officer of the CORE shall, within thirty days of election as an officer of the CORE, disclose to the Board of Directors of the CORE each corpora investment exceeding $2, 500 held by him, individually and/or jointly. On January 30 of each year each officer of the CORE shall disclose to the Directors of the CORE each corporate investment exceeding $2, 500 made by him, individually and/or jointly, during the previous calendar year and any additional investment so made in the previous calendar year which even though less than $2, 500 increase his total investment in the subject corporation to $2, 500 or more.

(f) Force Majeure

Neither Phillips nor the CORE shall be held to be in breach or non-compliance under this Agreement if Phillips or the CORE is unable to meet an obligation of this Agreement because of unforeseeable causes beyond the control of either Phillips or the CORE including, but not limited to, acts of God or of the public enemy, restrictions imposed by any government or governmental agency, fires, floods, epidemics, quarantine restrictions, strikes, lockouts, inability to secure labor, freight embargoes, unusually severe weather conditions, or delays of a contractor due to the above: Provided, further, that neither Phillips

nor the COFB shall be held to be in breach or noncompliance under this Agreement if the controls on imports into the United States and Puerto Rico of crude oil, unfinished oils, or finished petroleum products established by Presidential Proclamation 3279, as amended, are abolished; or if the allocation granted to Phillips to import into Puerto Rico 50,000 barrels a day of unfinished oils is terminated, or reduced during the initial ten year period to such an extent as to render the petrochemical complex no longer economically feasible, except as a result of sanctions invoked upon establishment of a breach by Phillips of an essential provision of this Agreement as set forth in subsection (d) of this section, supra, or if at any time after the ten-year period mentioned above an allocation shall be granted to Phillips for importation of unfinished oils into Puerto Rico which is not consistent with the requirements of the Puerto Rican petrochemical industry, as mentioned in the penultimate paragraph of the letter of the Secretary of the Interior of May 11, 1965, attached as Appendix 1 of this Agreement; or if the petrochemical complex is rendered no longer economically feasible by reason of any other action of the United States Government or by the Government of the Commonwealth of Puerto Rico except such action by the Commonwealth permitted by this Agreement in the event of breach.

E 914

(g) This Agreement will be interpreted and enforced pursuant to the laws of Puerto Rico.

Rafael Durand
Administrator
Economic Development Administration

Stanley Learned
President,
Phillips Petroleum Company

APPROVED:

Roberto Sánchez Vilella
Governor,
Commonwealth of Puerto Rico

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J-71, Letter, Durand to Learned, May 27, 1965

ECONOMIC DEVELOPMENT ADM
P. O. BOX 2172
SAN JUAN, PUERTO RICO

USA 33s - 475
(ED. 4-23-71)
E 915
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
J-71
FPI: MI—8-24-75-50M-4417

May 27, 1965

Mr. Stanley Learned
President
Phillips Petroleum Company
Bartlesville, Oklahoma

Dear Mr. Learned:

In testimony presented at the public hearing held by the Department of the Interior on July 31, 1964, Phillips Petroleum Company (Phillips) described the estimated investment and manpower requirements of the core chemical facility, of certain primary and secondary chemical processing units, and of certain consumer products units. Included in this description were the primary and secondary chemical processing units and the consumer products units required for the production of nylon 66 melt spin fiber as follows:

	Investment ($MM)	Manpower
Adipic acid - HMD plant	43.0	200
Nylon 66 polymer plant	24.4	1,050
Nylon 66 melt spin fiber plant	80.0	3,200

In addition, estimated investment and manpower requirements for both nylon 66 and polyester consumer products, finished fabrics, and unfinished grey goods was set at $200 million and 18,000 persons.

In conversations held between us during our negotiations leading to the Agreement between the Commonwealth Government and Phillips of May 27, 1965, you have stated that substantial expenditures have been made by Phillips in order to place it in a position to undertake nylon fibre manufacture. We are agreed that introduction of nylon fiber manufacture as part of Phillips petrochemical complex is necessary in order to implement the complex and that failure to introduce nylon fibre manufacture as part of the complex would seriously inpair realization of the potentials of the complex as regards manpower requirements.

COMMONWEALTH OF PUERTO RICO
ECONOMIC DEVELOPMENT ADMINISTRATION
P. O. BOX 1671
SAN JUAN, PUERTO RICO

E. 916

Phillips has presented reasons satisfactory to me which indicate the impossibility of nylon fiber manufacture in Phillips petrochemical complex unless Phillips ownership of plants for the production of nylon intermediates and nylon fiber is in the range of 80 percent.

In consideration of the Agreement of May 27, 1965, between Phillips and the Government of the Commonwealth of Puerto Rico and in view of the foregoing, if Phillips will present to me a proposal for manufacture of nylon intermediates and nylon fiber in Puerto Rico calling for an initial investment in excess of $50,000,000 and which projects growth in a few years to the level of investment and manpower set forth in the table above I shall approve Phillips participation as required in the ownership of such manufacturing plants in waiver of section 1 (g) of the Agreement of May 27, 1965. It is understood that PRIDCO would be offered participation in such plants up to the amount of 25 percent of the interest available to Phillips.

Sincerely,

Rafael Durand
Administrator

J-72, Letter, Learned to Udall, June 11, 1965

PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

June 11, 1965

USA 33a - 475
(ED. 4-23-71)

E 917

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-72

FPI MI—8-24-75-50M-4417

STANLEY LEARNED
PRESIDENT

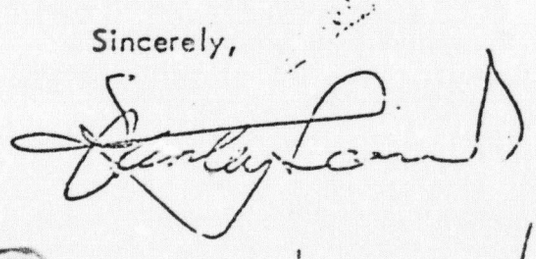
The Honorable Stewart L. Udall
Secretary of the Interior
Interior Building
Washington, D.C.

My dear Mr. Secretary:

The Agreement of May 27, 1965, entered into between the Government of the Commonwealth of Puerto Rico and Phillips Petroleum Company states that upon the grant of an allocation to Phillips as specified in the Agreement certain rights and obligations will obtain. Among other things, the corporation owning and operating the core chemical facility (the "CORE") undertakes that production of motor fuel shall be limited to a maximum of 49.6% of the net charge stock used. This is in exact conformance with the language of your letter of May 11, 1965.

You have subsequently raised a question as to our understanding of this provision. Our understanding and intent is as follows. Phillips Petroleum Company, through its majority ownership in the CORE, assures the Department of the Interior that not less than 50.4% of the net charge stock used by the CORE will be produced for use as petrochemical feed stocks not presently subject to control under the mandatory oil import program or utilized in the production of petrochemicals not presently subject to control under the mandatory oil import program except for certain paraffinic fractions referred to below and for such fuel gas as may be used by the CORE itself and its satellites for internal operations. With reference to the paraffinic fractions referred to which have been presented as a part of our proposal, Phillips assures the Department that these fractions will, until such time as utilized in Puerto Rico for petrochemical manufacture under the Right of First Refusal Clause of the Agreement with the Commonwealth of Puerto Rico, be supplied to Phillips' markets abroad in arms length transactions consistent with the provisions of the Phillips Agreement with the Commonwealth.

Sincerely,



bcc - W. W. Keeler
Roy Waldby
Martin Friedman

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J-73, Announcement by the Secretary of the Interior,
June 18, 1965

UNITED STATES
DEPARTMENT of the I

* * * \

J-74, Letter, Governor Sanchez Vilella to Secretary Udall, June 29, 1965

COMMONWEALTH OF PUERTO RICO

LA FORTALEZA, SAN JUAN

OFFICE OF THE GOVERNOR

USA 33a - 475
(ED. 4-23-71)

E 919

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-74

FPI-MI—8-24-75-50M-4417

June 28, 1965

Honorable Stewart L. Udall
Secretary
Department of the Interior
Washington, D. C.

Dear Mr. Secretary:

In our telephone conversation yesterday I advised you of our serious concern over the delay in final processing, for Presidential approval, of the Puerto Rico petrochemical project. It is my understanding that the delay is caused by the fact that you have now determined that the Puerto Rico project should not be submitted to the President for approval until after you have elicited the views of an interdepartmental committee, which was established late last week, concerning the Puerto Rico project as well as concerning other proposed changes in the Oil Import Program.

I asked you yesterday to reconsider your decision to delay the formal processing of the Puerto Rico petrochemical project. We fear that any further delay will jeopardize the establishment of this project which is so critically needed for Puerto Rico's economic growth.

Furthermore, we believe that it would be highly appropriate for the Federal Government, through separate processing of the Puerto Rico project, to focus national and international attention upon this dramatic action to aid the economic development of the Caribbean.

You advised me that in the light of the matters which we had discussed, you would reconsider your decision to delay transmission of the Puerto Rico project to the President for his approval. We are confident that upon reconsideration you will agree with us that the interests of Puerto Rico and of the United States as a whole could best be served by immediate implementation of your earlier decision and commitment to secure a petrochemical project for Puerto Rico.

E 920

I am aware that you have already included the Puerto Rico project as a part of the overall proposed revisions to the Oil Import Program which are now pending for comment by the interdepartmental committee. We suggest that the Puerto Rico project be the first matter to be placed upon the agenda of that committee and we request that after receiving the views of the interested departments and agencies on the project, you then proceed--prior to committee review of the other proposed oil program changes--to transmit the proposed changes pertaining to Puerto Rico for final Presidential approval.

In our telephone conversation yesterday you also advised me that you would be willing to furnish us with such further assurances of your intentions with respect to the Puerto Rico project that might be required at this time. In view of your substantive approval of the project, as announced by your letter to me of May 11, 1965 and the press release by your Solicitor on June 17, I believe that no further substantive assurances by you are required. However, we are anxious that the final form of the Presidential Proclamation change as it affects Puerto Rico be so designed to avoid the need, after Presidential approval thereof, for any further administrative proceedings with respect to the proposed petrochemical project of the Phillips Petroleum Company. We have already submitted to your Solicitor the Commonwealth's proposed revisions to the Presidential Proclamation. A copy of these proposed revisions is enclosed. We would like to have your assurances that this language will be proposed by your Department to the President.

I am hopeful and confident, both for myself and in behalf of the people of Puerto Rico, that this matter will be satisfactorily resolved within the next few days.

Sincerely yours,

Roberto Sánchez Vilella

Enclosure

J-75, Announcement by the Office of the Secretary of the Interior, July 2, 1965

UNITED STATES
DEPARTMENT of the
* *

USA 33a - 475
(ED. 4-23-71)

E 921

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-75

FPI: MI—8-24-75-50M-4417

OFFICE OF THE SECRETARY

For Release JULY 2, 1965

INTER-AGENCY OIL IMPORT REVIEW SCHEDULED

An inter-agency committee is being assembled to review proposed modifications of Presidential Proclamation 3279, Secretary Udall announced today.

The committee will consist of representatives of State, Treasury, Defense, Justice, Commerce and Labor, and the Office of the Special Representative for Trade Negotiations, the Council of Economic Advisers and the Office of Emergency Planning. Secretary Udall will act as chairman of the inter-agency group.

It is expected that the first meeting of the committee will be held next week, Secretary Udall said.

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J-76, Statement by Durand, August 8, 1965

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COMMONWEALTH OF PUERTO RICO
ECONOMIC DEVELOPMENT ADMINISTRATION
CONTINENTAL OPERATIONS BRANCH
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

P. 68

FOR RELEASE 4:00 P.M.
SUNDAY, AUGUST 8

STATEMENT BY RAFAEL DUPAND
ON PHILLIPS PETROCHEMICAL PROJECT FOR PUERTO RICO

The petrochemical complex that has been approved for Puerto Rico was so crucially needed and fervently hoped for by our people that, now that ground is about to be broken for the project, we feel that Puerto Rico has made a decisive turning point, not only for its continuing economic growth but for national and hemispheric security. It is something that we who are charged with planning and stimulating the industrial growth of Puerto Rico have worked for over several years and the Phillips project is the culmination of long effort and after discussions and negotiations with many companies.

The Phillips Petroleum's petrochemical complex involves the establishment of a core chemical facility and satellite plants that would, by producing raw materials and intermediate products, attract industry to the Island, thereby creating industrial jobs for long-term development and sustained growth of the Commonwealth.

The Government of Puerto Rico has responded to the formal assurances of the United States Government, given through the

Department of the Interior, regarding the establishment of this complex by buying up land for the project, by participating in the financing, and by taking all steps necessary for providing the electric power, water, transportation and other essentials for the successful development of the facility. These commitments have aroused the hopes and expectations of the people of Puerto Rico.

Obviously, the importance of this project to Puerto Rico's economic future cannot be overemphasized.

Actual discussions and negotiations for a petrochemical complex were initiated with a company for the first time in mid-1961. And I want to make clear that that company was not the Phillips Petroleum Company. In fact, from the initial negotiation in 1961, we have held discussions or negotiations with no less than twelve petroleum or petrochemical companies. At no time has the door been closed to any company prepared to come up with a detailed plan for the project that would meet the best interests of Puerto Rico.

We had certain conditions that we insisted upon from the beginning, and Phillips alone ultimately came up with a detailed and comprehensive proposal that satisfied these conditions -- which included the following: Investment of profits from the core facility for a period of ten years; granting rights of

first refusal to manufacturers in Puerto Rico on all petrochemical streams at competitive prices; veto power for the Commonwealth of Puerto Rico on all off-island sales contracts involving core plant production; and veto power by the Commonwealth of Puerto Rico on any satellite project in which Phillips might request more than 25% equity.

All the other companies eliminated themselves by failing or refusing to meet, or even approximate, these conditions. Several companies demanded exclusivity in even the planning stage; several proposed an inadequate percentage of raw material to be converted into chemicals; one was too gasoline-oriented; some failed to provide sufficient information even to qualify for consideration; and inadequate financing or inadequate production or marketing know-how eliminated others.

From this it is difficult to see how a charge of discriminatory preference in favor of Phillips can be made.

For Phillips, this complex most certainly is not a windfall. Phillips has committed itself to invest all profits from the core facility for a period of ten years in satellite plants in Puerto Rico; and, further, the investment so committed will be in satellite plants subject to approval by the Government of Puerto Rico.

Nor is there a competitive advantage for Phillips in

marketing of its gasoline production. The import license will be held by the core plant in Puerto Rico and all of its sales of gasoline and other products to Phillips, as to other companies, will be at competitive arm's-length prices. This is a requirement legally enforceable by the Government of Puerto Rico and is a matter of public record.

There is yet another matter -- an incomprehensible one -- that has been raised. This is that companies other than Phillips failed to show interest because of the existing import control system. The fact is that the necessity for changes in the Proclamation governing the import control system entered into discussions at the outset. These changes were and are indispensable to Puerto Rico's continued economic growth.

I have stressed how crucial this project is for Puerto Rico. In addition, I now want to take note of what I believe to be its importance to national and hemispheric security.

Puerto Rico is watched closely in the Caribbean and Latin America and it is vital to the United States for Puerto Rico to continue to demonstrate that a free democratic society can exist and prosper in a developing area of key importance to America's national security objectives. The events beginning in May of this year and continuing to date, in the Dominican Republic, give added emphasis to this point.

E 926

I believe that the continued economic growth of Puerto Rico and the resultant rising income levels which will be achieved through the strengthening of the Island's industrial base by the project which I have been discussing will make a positive contribution to U. S. national security.

****

WASHINGTON, D. C.
AUGUST 8, 1965

RAFAEL DURAND
ADMINISTRATOR
ECONOMIC DEVELOPMENT ADMINISTRATION

J-77, Letter, Learned to Moore, November 12, 1965

BARTLESVILLE, OKLAHOMA
November 12, 1965

STANLEY LEARNED
PRESIDENT

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
J-77
E 927

Mr. J. Cordell Moore
Assistant Secretary - Mineral Resources
Department of the Interior
Washington, D. C. 20240

Dear Cordell:

In the hearings held by the Department of the Interior and by the Department of Commerce in Washington, D. C. on October 28th and 29th relative to the relationship of the Oil Import Program to the domestic petrochemical industry, certain testimony of Mr. Gordon A. Cain, testifying on behalf of Continental Oil Company and evidently alluding to Phillips Petroleum Company's plans for petrochemical manufacture in Puerto Rico, is in error and misleading. Mr. Cain's testimony states:

> "A proposed plant which would import 50,000 barrels per day of petroleum feedstocks at a cost of $36 million a year. (The data for this example, which is shown in Exhibit X, are based on public information provided by the company involved.) If, in the unlikely event, everything is exported except motor fuel and the paraffinic fractions, the annual value of exports would be only $20 million, thus the excess of imports over exports would be a $16 million drain on our balance of payments and undermine the mandatory oil import program."

Mr. Cain would not have made the statement he did had he been familiar with all of the testimony made by Phillips in the public hearing on July 31, 1964, the commitments that have been made to the Puerto Rican Government by our agreement of May 27, 1965, and the statement of the Secretary of the Interior Udall, that it would be the Department's intention "to seek adjustments to the program to insure that net receipts in the United States of petroleum and petroleum products from foreign areas would not be increased."

Inasmuch as Phillips is committed by its agreement with Puerto Rico to export the paraffinic fractions, and it is permitted by the same agreement to export the "core" complex chemicals until such time as its use for them in Puerto Rico is required in sattelite facilities, this project will in reality improve the country's balance of payments substantially, rather than being a drain of $16 million as stated erroneously by Mr. Cain.

Sincerely,

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J-78, Letter, Governor Sanchez to Vilella, President Johnson, November 13, 1965

E 928

J-78

November 13, 1965

Honorable Lyndon B. Johnson
White House
Washington, D. C.

Dear Mr. President:

It is my duty and obligation to write to you concerning a matter of fundamental importance to Puerto Rico. At stake is the future course of Puerto Rico's economy, a matter which I believe is not unrelated to the national security objectives of the United States.

The Department of the Interior formally announced many months ago approval of a new petrochemicals feedstocks plant for Puerto Rico. This public commitment was made by Secretary Udall after several public hearings -- including a public hearing in July 1964 addressed solely to that portion of Proclamation 3279 relating to Puerto Rico -- and after extensive investigation of the needs of Puerto Rico. Such a petrochemical complex will constitute a major breakthrough in Puerto Rico's development efforts. Such a petrochemical complex, through the provision of a source of synthetic raw materials, will substantially compensate for Puerto Rico's lack of natural resources. It will enable Puerto Rico to meet the growing threats to its economic progress.

The Puerto Rico petrochemical project is now in serious jeopardy. The problem is one of delay in final action by the Federal Government.

The continued delay has reached the point where critical satellite manufacturing plants are likely to locate outside of Puerto Rico because of uncertainties as to when the Puerto Rico project will get under way. It is my judgment that unless that part of Presidential Proclamation 3279 pertaining to Puerto Rico is amended now to

accommodate the Puerto Rico petrochemical project, the benefits of the project to Puerto Rico will prove insignificant. This would be disastrous for Puerto Rico.

I cannot overemphasize the seriousness of the present situation. In my judgment, the timing of your decision on this project is the most significant Federal action directly affecting Puerto Rico since the creation of the Commonwealth in 1962. This is because we are threatened with the loss of the basic satellites which would make this project meaningful. I believe it essential for the well-being of Puerto Rico that this project, which has for so long been publicly promised, be effectuated without further delay.

Respectfully yours,

Roberto Sanchez Vilella

J-79, Letter, Durand to White, November 14, 1965

E 930

J-79

November 14, 1955

Lee White, Esquire
White House
Washington, D. C.

Dear Mr. White:

I am grateful for your making room in your schedule on November 10 to see me and discuss the Puerto Rico petrochemical project. I would not have pressed for a meeting on such short notice if Presidential action on this matter were not the critical factor.

I would like to elaborate upon certain aspects of the Puerto Rico project. Also, enclosed is supplemental material, described below, on the evolution and structure of this project.

1. I advised you that time is now of the essence. The value of this project to Puerto Rico stems from high-employment manufacturing operations which will derive their petrochemical feedstocks from the core petrochemical plant. The most vital satellite involved in this complex is a manufacturer of nylon. Some 5,000 to 10,000 direct employment opportunities in the manufacture of consumer end products are involved. We are now convinced that unless the Puerto Rico project goes forward now, the nylon manufacturer will locate outside of Puerto Rico, thus killing the anticipated potential of the project.

2. At our meeting on November 10 I told you that the Government of Puerto Rico has actively sought, since mid-1951, to establish a petrochemical complex in Puerto Rico. Throughout this period we have had discussions and negotiations with many companies concerning this project. The basic criteria for the Commonwealth's endorsement and support of a petrochemicals feedstocks plant have been threefold: (a) the company must have an established and strong research position; (b) the company must have adequate production experience; and (c) the company must, of itself, have a world-wide marketing position. These criteria were designed to insure our success in securing satellite manufacturing plants utilizing the petrochemical output of the core facility. In addition, we have insisted that the core petrochemical plant be oriented primarily to the production of petrochemicals for use in Puerto Rico. Only Phillips Petroleum Company came forward with a proposal which met our established criteria.

Many other companies were given an opportunity to participate in this project. Some lost interest. Others were rejected by us for failure to meet our criteria. I enclose a copy of a letter which I wrote to Secretary Udall on March 3, 1965, together with a detailed supporting memorandum, which set forth the history of Puerto Rico's efforts since 1961 to secure a petrochemical complex.

In addition to meeting the established criteria of the Commonwealth, Phillips Petroleum Company has, at the insistence of the Department of the Interior, agreed to reinvest all profits from the core petrochemical facility in satellite manufacturing plants in Puerto Rico for the first ten years of the project. This commitment is discussed at pages 5-6 of the enclosed memorandum of May 24, 1965 from me to Governor Sanchez which describes the contractual arrangements between Phillips and the Commonwealth Government.

3. There was time at our meeting for only a limited discussion of the importance of a petrochemical complex for the economic growth of Puerto Rico. At the July 1964 Interior Department public hearings on the oil import program as it relates to Puerto Rico, I testified at length to the converging factors which threaten "Operation Bootstrap". These factors are:

(a) Puerto Rico's population explosion;
(b) Rapidly rising production costs in Puerto Rico;
(c) Expected short-term adverse effects on Puerto Rico of the Kennedy Round;
(d) Puerto Rico's lack of indigenous raw materials; and
(e) An ever-increasing rate of expiration of industrial tax exemption grants, thus threatening us with an acceleration of plant shut-downs.

I enclose a copy of my testimony at the 1964 hearings.

4. It is my opinion that continued delay by the Federal Government in implementation of the Interior Department's commitments would have the practical effect of destroying the public benefits of this project. Governor Sánchez is advising the President that Puerto Rico believes that the timing of the President's decision on this project is the most significant Federal action directly affecting Puerto Rico since the creation of the Commonwealth in 1952.

Sincerely yours,

Rafael Durand
Administrator

Enclosures

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J-80, Letter, Durand to White, December 4, 1965

E 933

December 4, 1965 J-80

Lee C. White, Esquire
The White House
Washington, D. C.

Dear Mr. White:

1. The Commonwealth Government determined, long before it knew of any interest by Phillips Petroleum Company in a Puerto Rico operation, that Puerto Rico required an increase in its oil import allotment to establish substantial petrochemicals operations in Puerto Rico and thus provide a major breakthrough in Puerto Rico's development efforts. We were also convinced that our objectives could be achieved only if one company were designated to provide the core facility to generate the petrochemical complex that Puerto Rico needs. Of all of the companies which we subsequently contacted and dealt with, only Phillips Petroleum Company came forward with a practical plan in conformity with Puerto Rico's criteria: that is, a project (a) which could be accommodated within the oil import program, (b) which would commit itself to contractual provisions to maximize employment opportunities in Puerto Rico through consumer product processing, and (c) which was based upon a company with proven research capability, production experience, and a world-wide marketing position.

It was the decision of the Commonwealth Government, for which it takes full responsibility, that the Phillips Petroleum Company should be the company which will undertake the task of establishing a core facility which will secure a major petrochemical complex for Puerto Rico.

2. Phillips has not been accorded special privileges in Puerto Rico. It has not been the recipient of any favoritism by the Commonwealth Government. On the contrary, Phillips has undertaken strict commitments to meet Puerto Rico's needs.

The Puerto Rico project will be profitable for Phillips only to the extent that it is successful in generating satellite manufacturing plants. This obtains from the fact that all profits from the core petrochemical facility must, by nature of the contract between Phillips and the Commonwealth, be reinvested in satellite manufacturing plants with high employment potential. Any advantage which Phillips may obtain in Puerto Rico will be purchased at a cost -- in terms of both monetary and product commitment to the operations in Puerto Rico -- which no other company has proved a willingness and ability to beat.

On November 14, 1965, I wrote to you and discussed, among other things, the efforts which Puerto Rico has made over the past few years to interest companies, including Phillips, in locating a core petrochemicals facility in Puerto Rico. I enclosed with my letter copies of a memorandum and letter which I had sent to the Secretary of the Interior on March 8, 1965, which detailed the conversations and negotiations between the Commonwealth and interested companies since 1961.

Some of these discussions were initiated by the companies, such as Union Texas Oil, Ashland Oil, and Texaco. The Commonwealth Government initiated discussions and solicited proposals from other companies, such as Standard of New Jersey, Gulf, Monsanto, and Standard of California.

The Commonwealth rejected some proposals -- such as those by Union Texas Oil and Ashland Oil -- because they wanted exclusive options on petrochemicals operations in Puerto Rico. Preliminary proposals by some companies -- such as Monsanto and Standard of New Jersey -- were abandoned by the companies themselves. Some proposals -- such as those by Texaco and a second proposal by Ashland Oil -- were rejected by us because the primary emphasis was upon gasoline, rather than petrochemicals, production. And discussions with still other companies, such as Gulf, Socony and Standard of California -- never matured into meaningful negotiations concerning petrochemicals.

I would like to point out that although we believe it essential that one company be given the responsibility for initially undertaking the establishment of a core facility for major petrochemicals production and resulting consumer product manufacturing in Puerto Rico, we have never proposed that the door be closed to others. Out proposed amendment to the Presidential Proclamation would not preclude other projects in the future, provided they are of significant benefit to Puerto Rico and otherwise compatible with the oil import program. Subsequent to Secretary Udall's public announcement in February of this year of his approval of an increased quota for the Puerto Rico petrochemical complex (and before Secretary Udall announced approval of the Phillips application for a quota), companies which previously felt that the Puerto Rico project was impracticable have indicated interest in Puerto Rico petrochemicals operations. However, none of these expressions of interest has taken the form of a proposal meriting serious consideration.

3. Much of the criticism in public of the Puerto Rico petrochemical project has centered on the fact that the core facility in Puerto Rico will produce some 24,800 barrels a day of gasoline which will be marketed in the Eastern states. I believe it essential to point out that in marketing this gasoline Phillips will not, for the first ten years of the operation of the core facility, have a price advantage. The cost advantage of using Caribbean crude, rather than domestic crude, as feedstock for the core facility will accrue to the operations in Puerto Rico and not to the marketing operations. Thus, by virtue of Phillips' commitment to reinvest its profits in manufacturing operations in Puerto Rico, the basic advantages of this project will go to Puerto Rico, not to the Phillips Petroleum Company.

4. The extent and nature of the Phillips commitments to the proposed Puerto Rico operations are unprecendented in Puerto Rico's economic development program. These commitment were reduced to contract form in May 1965 after a final round of intensive arms' length negotiations with Phillips. No doubt Phillips has been motivated to bind itself to these

commitments by the prospects of profits which it will ultimately receive. We also believe that the Commonwealth Government exercised extreme diligence in obtaining maximum commitments, for the benefit of the people of Puerto Rico, in return for the Commonwealth Government's support of Phillips' proposal.

Sincerely yours,

Rafael Durand
Administrator

J-81, Presidential Proclamation, December 10, 1965

E 937

FOR IMMEDIATE RELEASE DECEMBER 10, 1965

Office of the White House Press Secretary
(Austin, Texas)

THE WHITE HOUSE

MODIFYING PROCLAMATION 3279
ADJUSTING IMPORTS OF PETROLEUM
AND PETROLEUM PRODUCTS

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, pursuant to section 2 of the act of July 1, 1954, as amended (72 Stat. 678), and section 232 of the Trade Expansion Act of 1962 (Public Law 87-794), findings and determinations have been made that adjustments in the imports of crude oil, unfinished oils, and finished products were necessary so that such imports would not threaten to impair the national security, such adjustments have been made by Proclamation 3279 (24 F.R. 1781) and modified by Proclamation 3290 (24 F.R. 3527), Proclamation 3328 (24 F.R. 10133), Proclamation 3386 (25 F.R. 13945), Proclamation 3389 (26 F.R. 507, 811), Proclamation 3509 (27 F.R. 11985), Proclamation 3531 (28 F.R. 4077), and Proclamation 3541 (28 F.R. 5931); and

WHEREAS, I find and determine that, in order to prevent total imports from impairing accomplishment of the purposes of Proclamation 3279, as amended, it is necessary to impose restrictions on the movement of crude oil, unfinished oils, and finished products into foreign trade zones; and

WHEREAS, I find and determine that for reasons of equity and competitive capability, there should be authority to include petrochemical plants within the system of allocation of imports; and

WHEREAS, it appears that, as represented by the Government of the Commonwealth of Puerto Rico, the development of a petrochemical industry in Puerto Rico will provide a substantial and much needed increase in opportunities for employment of its citizens, I find and determine that provisions should be made permitting the development, without impairment of the objectives of Proclamation 3279, as amended, of such an industry in Puerto Rico:

NOW, THEREFORE, I, LYNDON B. JOHNSON, President of the United States of America, acting under and by virtue of the authority vested in me by the Constitution and the statutes, including section 232 of the Trade Expansion Act of 1962, do hereby proclaim that:

1. Paragraph (a) of section 1 of Proclamation 3279, as amended, is amended to read as follows:

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(a) In Districts I-IV, in District V, and in Puerto Rico, no crude oil, unfinished oils, or finished products may be entered for consumption or withdrawn from warehouse for consumption, and no foreign crude oil, unfinished oils, or finished products may be brought into a foreign trade zone in Districts I-Iv or in District V for processing within the zone, except (1) by or for the account of a person to whom a license has been issued by the Secretary of the Interior pursuant to an allocation made to such person by the Secretary in accordance with regulations issued by the Secretary, and such entries, withdrawals, and shipments into foreign trade zones may be made only in accordance with the terms of such license, or (2) as authorized by the Secretary pursuant to paragraph (b) of this section, or (3) as to finished products, by or for the account of a department, establishment, or agency of the United States, which shall not be required to have such a license but which shall be subject to the provisions of paragraph (c) of this section, or (4) crude oil, unifinished oils, or finished products which are transported into the United States by pipeline rail, or other means of overland transportation from the country where they were produced, which country, in the case of unfinished oils or finished products, is also the country of production of the crude oil from which they were processed or manufactured.

2. Subparagraph (1) of paragraph (a) and paragraph (c) of section 2 of Proclamation 3279, as amended, are severally amended to read as follows:

(a)(1) In Districts I-IV, for a particular allocation period the maximum level of imports, subject to allocation, of crude oil, unfinished oils, and finished products (other than residual fuel oil to be used as fuel) shall be an amount equal to the difference between (i) 12.2 percent of the quantity of crude oil and natural gas liquids which the Secretary estimates will be produced in these districts during the particular allocation period and (ii) the quantity of imports of crude oil, unfinished oils, and finished products excepted by clause (4) of paragraph (a) of section 1 which the Secretary estimates will be imported into these districts during that allocation period plus the quantity estimated by the Secretary by which shipments of unfinished oils and finished products (other than residual fuel oil to be used as fuel) from Puerto Rico to Districts I-IV during that allocation period will exceed the quantity so shipped during a comparable base period in the year 1965. As used in this subparagraph (1), the term "natural gas liquids" means natural gas products and other hydrocarbons such as isopentane, propane, and butane, or mixtures thereof, recovered from natural gas by means other than refining. Within such maximum level, imports of unfinished oils shall not exceed such percentum of the permissible imports of crude oil and unfinished oils as the Secretary may determine and imports of finished products (other than residual fuel oil to be used as fuel) shall not exceed the level of imports of each products into these districts during the calendar year 1957.

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(c) The Secretary, having taken into account the standards prescribed for allocation of imports of crude oil and unfinished oils into Puerto Rico, any actions taken pursuant to section 4, and shipments from Puerto Rico into Districts I-IV, shall establish for each allocation period a maximum level of imports into Puerto Rico of crude oil and unfinished oils which, in his judgment, is consonant with the objectives of this proclamation. The maximum level of imports of finished products into Puerto Rico for a particular allocation period shall be approximately the level of such imports during all or part of the calendar year 1958 as determined by the Secretary to be consonant with the purposes of this proclamation or such higher level as the Secretary may determine is required to meet a demand in Puerto Rico for finished products that would not otherwise be met.

*****

3. Subparagraphs 1, 2, and 3 of paragraph (b) of section 3 of Proclamation 3279, as amended, are severally amended to read as follows:

(b)(1) With respect to the allocation of imports of crude oil and unfinished oils into Districts I-IV and into District V, such regulations shall provide, to the extent possible, for a fair and equitable distribution among persons having refinery capacity in these districts in relation to refinery inputs (excluding inputs of crude oil or unfinished oils imported pursuant to clause (4) of paragraph (a) of Section 1). The Secretary may by regulation also provide for the making of such allocations to persons having petrochemical plants in these districts in relation to inputs to such plants (excluding inputs of crude oil or unfinished oils imported pursuant to clause (4) of paragraph (a) of section 1). Provision may be made in the regulations for the making of such allocations on the basis of graduated scales of inputs. Provision shall be made for a more rapid reduction of those allocations based on allocations under the Voluntary Oil Import Program which reflected imports of crude oil in the category now covered by clause (4) of paragraph (a) of section 1.

(2) Such regulations shall provide for the allocation of imports of crude oil and unfinished oil into Puerto Rico among persons having refinery capacity in Puerto Rico in the calendar year 1964 on the basis of estimated requirements, acceptable to the Secretary, of each such person for crude oil and unfinished oils. The regulations shall provide also that if, during a period comprising the same number of months as an allocation period and ending three months beforethe beginning of the allocation period, any such person ships to Districts I-IV unfinished and/or finished products (other than residual fuel oil to be used as fuel) or sells unfinished oils or finished products (other than residual fuel also used as fuel) which are shipped to Districts I-IV in excess...

regulation for the making, in instances in which the Secretary determines that such action would not impair the accomomplishment of the objectives of this proclamation, of allocations of imports of crude oil and unfinished oils into Puerto Rico to persons as feedstocks for facilities which will be established or for the operation of facilities which are established and which in the judgment of the Secretary will promote substantial expansion of employment in Puerto Rico through industrial development, and such regulations shall provide for the imposition of such conditions and restrictions upon such allocations as the Secretary may deem necessary to assure that any imports so allocated are used for the purposes for which an allocation is made and that the holder of such an allocation fulfills commitments made in connection with the making of the allocation.

(3) Except for crude oil or unfinished oils imported pursuant to special relief granted pursuant to section 4, such regulations shall require that imported crude oil and unfinished oils be processed in the licensee's refinery or petrochemical plant, except that exchanges for domestic crude or unfinished oils may be made if otherwise lawful, if effected on a current basis and reported in advance to the Secretary, and if the domestic crude or unfinished oils are processed in the licensee's refinery or petrochemical plant.

4. Subparagraph (1) of paragraph (g) of section 9 of Proclamation 3279, as amended, is amended to read as follows:

(g)(1) Liquefied gases - hydrocarbon gases such as ethane, propane, propylene, butylene, and butanes (but not methane) which are recovered from natural gas or produced in the refining of petroleum and which, to be maintained in a liquid state at ambient temperatures, must be kept under greater than atmospheric pressures;

******

5. This amendatory proclamation shall become effective on January 1, 1966.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the City of Washington this tenth day of December in the year of our Lord nineteen hundred and sixty-five, and of the Independence of the United States of America the one-hundred and ninetieth.

LYNDON B. JOHNSON

By the President:

DEAN RUSK

Secretary of State

J-82, Announcement by the Department of the Interior,
December 10, 1965

UNITED STATES
DEPARTMENT of the INTERIOR

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news release

J-82

OFFICE O. THE SECRETARY Wood 343-3171

For Release December 10, 1965

REVISIONS TO OIL IMPORT PROGRAM ANNOUNCED

Secretary of the Interior Stewart L. Udall today announced a series of revisions to Presidential Proclamation 3279 relating to the control of imports of petroleum and petroleum products into the United States based on the unanimous recommendation of the Department of the Interior and all other interested Federal Departments and Agencies. The changes which will be effective January 1, 1966, require a Presidential Proclamation amending the existing Proclamation originally issued by President Eisenhower in 1959 and subsequently amended by President Kennedy.

The amendatory proclamation was developed after three public hearings, a period of intensive study within the Department of the Interior and an in-depth interdepartmental analysis. Two principal conclusions were developed in the course of this year-long review of the program.

First, the oil import control system, particularly since January of 1963, has stabilized the relationship between domestic and imported supplies of petroleum in the United States. The continuation of imports in approximately the same relationship to domestic production that has prevailed since 1963 serves the interests of the U.S. from the standpoint both of domestic and international policy. The conclusions in the Department's report "An Appraisal of the Petroleum Industry of the United States" issued in January 1965, continue to be valid and provide the basis for policy relative to import controls.

Second, the review underscored that current procedures for distributing allocations were effectively contributing to achievement of the objectives of the program, but that these procedures could be modified to advantage by extending eligibility under the program to firms of the petrochemical industry not now eligible for allocations.

The amendments to the proclamation provide authority in the Secretary of the Interior to grant allocations within the maximum import levels to petrochemical producers not currently eligible for import quotas on a basis comparable to that now applicable to refiners. This revision will provide petrochemical producing firms a more equitable competitive position with respect to refining firms which have petrochemical producing facilities and now receive allocations under the program.

Under the revisions announced today, the Secretary of the Interior would be authorized to grant allocations for the establishment of new petrochemical producing facilities in Puerto Rico. Increased shipments of products to the mainland stemming from such new facilities will be deducted from the licensed import level for Districts I-IV. In addition a more precise basis for establishing allocations for other firms operating in Puerto Rico is included. This provision will tend to assure that future shipments to the mainland of products from established Puerto Rican refineries do not exceed a base period level.

The Secretary, in announcing the revisions, pointed out that representatives of the Administration have been in frequent consultation with the Government of Venezuela concerning the probable impact of the control system on future imports of petroleum from Venezuela. These discussions were undertaken with a full awareness of the special concern with which the Government of Venezuela views the oil import control program due to the high proportion of U. S. imports which traditionally have originated from that country.

In this respect, the U. S. recognizes that the oil industry in Venezuela has a special position in the contribution it makes to Western Hemisphere security.

The Administration proposes to continue discussions, as in the past, with representatives of the Venezuelan Government for the purpose of reaching mutually satisfactory solutions, in keeping with the friendly spirit which has always characterized the relationship of the two countries.

Secretary Udall indicated that the Oil Import Administration would issue for public comment, as soon as possible, an outline of the procedures that the Oil Import Administrator intends to recommend for establishing allocations to petrochemical producers. Regulations covering other phases of the program for the coming allocation period will be issued prior to January 1.

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J-83, Amendments to Oil Import Regulation 1,
December 21, 1965

USA 3-8-476
(ED. 4-68-71)

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

J-83

FPI-MI—8-24-78-500-4417

UNITED STATES
DEPARTMENT OF THE INTERIOR

CODE OF FEDERAL REGULATIONS
TITLE 32A - NATIONAL DEFENSE, APPENDIX

CHAPTER X - OIL IMPORT ADMINISTRATION
DEPARTMENT OF THE INTERIOR

OIL IMPO. REGULATION 1 -- (Revision 4) Amendment 7

MISCELLANEOUS AMENDMENTS

This amendment establishes the calendar year as the allocation period for imports of crude oil and unfinished oils into Districts I-IV and District V. A similar change is made with respect to the allocation period for imports of finished products into Puerto Rico. Except for an interim allocation period, the allocation period for imports of crude oil and unfinished oils into Puerto Rico by established refiners will be a period of twelve months beginning April 1. Pursuant to subparagraph (b)(2), section 3, of Proclamation 3279 as amended by Proclamation 3693, dated December 10, 1965 (30 F.R. 15459), revisions are made in the system of allocating imports of crude oil and unfinished oils to the established refining companies in Puerto Rico, and provision is made for allocations in respect of facilities promising substantial expansion of employment in Puerto Rico. Sections 10 and 11 have been revised in the light of the maximum levels of imports into Districts I-IV and District V for the allocation period beginning January 1, 1966. Stated quantities of imports are reserved for allocation to petrochemical plants in these districts and for the

Oil Import Appeals Board. Section 14 as revised reflects the changes made by Proclamation 3693 in paragraph (c), section 2, of Proclamation 3279, relating to the level of imports into Puerto Rico, and the extension of the allocation period for imports of finished products into Puerto Rico.

1. Section 3 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Sec. 3. Allocation periods.

(a) With respect to Districts I-IV and District V, allocations of imports of crude oil, unfinished oils, and finished products (other than residual fuel oil to be used as fuel) will be made for periods of twelve months beginning January 1. Allocations of imports into District I and into Districts II-IV of residual fuel oil to be used as fuel will be made for periods of twelve months beginning April 1, and allocations of such imports into District V will be made for periods of twelve months beginning January 1.

(b) Allocations of imports of finished products into Puerto Rico will be made for periods of twelve months beginning January 1.

(c) Except for allocations made pursuant to paragraph (c) of section 15, allocations of imports of crude oil and unfinished oils into Puerto Rico will be made for an interim allocation period

January 1, 1966 through March 31, 1966. Thereafter, allocations of imports of crude oils and unfinished oils into Puerto Rico (except allocations made pursuant to paragraph (c) of section 15) will be made for periods of twelve months beginning April 1.

2. Paragraph (b) of section 4 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Sec. 4. Eligibility for allocations.

* * * *

(b) To be eligible for an allocation of imports of crude oil and unfinished oils for Puerto Rico, a person must have had refinery capacity in Puerto Rico during the calendar year 1964. Allocations may also be made pursuant to paragraph (c) of section 15.

3. Section 10 of Oil Import Regulation 1 (Revision 4) (30 F.R. 8475) is amended to read as follows:

Sec. 10. Allocations of crude oil and unfinished oils--Districts I-IV.

(a) For the allocation period January 1, 1966 through December 31, 1966 the quantity of imports of crude oil and unfinished oils available for allocation in Districts I-IV is 722,916 B/D. Of this quantity 30,000 B/D are set aside for allocation to persons having petrochemical plants in these districts in relation to petrochemical plant inputs and approximately 3,000 B/D are reserved

from allocation by the Administrator and made available to the Oil Import Appeals Board. The balance of imports shall be allocated by the Administrator among eligible applicants as provided in paragraphs (b) and (c) of this section.

(b) Except as provided in paragraph (c) of this section, each eligible applicant shall receive an allocation based on refinery inputs for the year ending September 30, 1965, and computed according to the following schedule:

Average B/D Input	Percent of Input
0 - 10,000	18.0
10 - 30,000	11.4
30 - 100,000	8.9
100,000 plus	5.26

(c)(1) Except as provided in subparagraph (2) of this paragraph, if an eligible applicant imported crude oil pursuant to an allocation under the Voluntary Oil Import Program and if an allocation computed under paragraph (b) of this section would be less than 54.0 percent of the applicant's last allocation of imports of crude oil under the Voluntary Oil Import Program, the applicant shall, nevertheless, receive an allocation under this section equal to 54.0 percent of his last allocation of imports of crude oil under the Voluntary Oil Import Program.

(2) If an applicant imported crude oil pursuant to an allocation under the Voluntary Oil Import Program which reflected imports of crude oil that would now be exempt from restrictions pursuant to clause (4) of paragraph (a) of section 1 of Proclamation 3279, as amended, and if an allocation computed under paragraph (b) of this section would be less than 42.25 percent of the applicant's last allocation of imports of crude oil under the Voluntary Oil Import Program, the applicant shall, nevertheless, receive an allocation under this section equal to 42.25 percent of his last allocation of imports of crude oil under the Voluntary Oil Import Program.

(d) No allocation made pursuant to paragraphs (b) or (c) of this section shall entitle a person to a license which will allow the importation of unfinished oils in excess of 10 percent of the allocation.

(e) No allocation made pursuant to this section may be sold, assigned, or otherwise transferred.

4. Section 11 of Oil Import Regulation 1 (Revision 4) (30 F.R. 8475) is amended to read as follows:

Sec. 11. Allocations of crude oil and unfinished oils--District V.

(a) For the allocation period January 1, 1966 through December 31, 1966 the quantity of imports of crude oil and unfinished

oils available for allocation in District V is 229,321 B/D. Of this quantity 2,000 B/D are set aside for allocation to persons having petrochemical plants in this district in relation to petrochemical plant inputs and approximately 1,000 B/D are reserved from allocation by the Administrator and made available to the Oil Import Appeals Board. The balance of imports shall be allocated by the Administrator among eligible applicants as provided in paragraphs (b) and (c) of this section.

(b) Except as provided in paragraph (c) of this section, each eligible applicant shall receive an allocation based on refinery inputs for ~~the year~~ ending September 30, 1965, and computed according to the following schedule:

Average B/D Input	Percent of Input
0 - 10,000	48.5
10 - 30,000	22.0
30 - 100,000	11.9
100,000 plus	7.3

(c) (1) Except as provided in subparagraph (2) of this paragraph, if an eligible applicant imported crude oil pursuant to an allocation under the Voluntary Oil Import Program and if an allocation computed under paragraph (b) of this section would be less than 46.0 percent of the applicant's last allocation of imports of crude oil under the Voluntary Oil Import Program, the applicant shall, nevertheless, receive an allocation under this section equal to 46.0 percent of his last allocation of imports of crude oil under the Voluntary Oil Import Program.

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(2) If an applicant imported crude oil pursuant to an allocation under the Voluntary Oil Import Program which reflected imports of crude oil that would now be exempt from restrictions pursuant to clause (4) of paragraph (a) of section 1 of Proclamation 3279, as amended, and if an allocation computed under paragraph (b) of this section would be less than 38.5 percent of the applicant's last allocation of imports of crude oil under the Voluntary Oil Import Program, the applicant shall, nevertheless, receive an allocation under this section equal to 38.5 percent of his last allocation of imports of crude oil under the Voluntary Oil Import Program.

(d) No allocation made pursuant to this section shall entitle a person to a license which will allow the importation of unfinished oils in excess of 10 percent of the allocation.

(e) No allocation made pursuant to this section may be sold, assigned, or otherwise transferred.

5. Section 14 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Sec. 14. Determination of maximum level of imports - Puerto Rico.

Pursuant to paragraph (c) of section 2 of Proclamation 3279, as amended, the Secretary will, for each allocation period, establish a maximum level of imports of crude oil and unfinished oils into Puerto Rico. For each allocation period, the average barrels per day of imports of residual fuel oil to be used as fuel and of imports of

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finished products other than residual fuel oil to be used as fuel into Puerto Rico shall not exceed the average barrels per day of imports of such products, respectively, into Puerto Rico during the last half of the calendar year 1958. The Secretary may adjust such level to meet a demand in Puerto Rico for finished products that would not otherwise be met.

6. Section 15 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Sec. 15. Allocations of crude oil and unfinished oils - Puerto Rico.

(a) For each allocation period, the Administrator shall recommend to the Secretary an allocation of imports of crude oil and unfinished oils for each applicant having refinery capacity in Puerto Rico during the calendar year 1964 based upon estimates of the requirements of such applicant for the allocation period. Allocations will be made by the Secretary upon consideration of the Administrator's recommendations.

(b) If, during the calendar year 1966, a person who received an allocation under paragraph (a) of this section for the allocation period April 1, 1966 through March 31, 1967 ships to Districts I-IV unfinished oils or finished products (other than residual fuel oil to be used as fuel) or sells unfinished oils or finished products

(other than residual fuel oil to be used as fuel) which were shipped to Districts I-IV in excess of the volume of unfinished oils or finished products (other than residual fuel oil to be used as fuel) which he so shipped or which he sold and were so shipped during the calendar year 1965, the person's allocation for the allocation period April 1, 1967 through March 31, 1968 shall be reduced by the amount of the excess. Thereafter, each succeeding allocation made to such a person shall be reduced by the amount by which shipments (as described above in this paragraph) made by or attributable to such person during the calendar year immediately preceding the beginning of the allocation period exceeds shipments made by or attributable to such person during the calendar year 1965.

(c) (1) In instances in which the Secretary determines that accomplishment of the objectives of Proclamation 3279, as amended, will not be impaired, allocations of imports of crude oil and unfinished oils may be granted to persons as feedstocks for facilities which in the Secretary's judgment will promote substantial expansion of employment in Puerto Rico through industrial development.

(2) A person seeking such an allocation should file an application with the Administrator. The application should disclose in detail the nature of the facility which the applicant proposes to construct, the proposed location of the facility, the capacity of such facility, the feedstocks to be charged to the facility, the products to be produced and the anticipated destinations of such products, the capital outlay involved, and the manner in

which construction of the facility would promote substantial expansion of employment in Puerto Rico through industrial development.

(3) Each such allocation shall be subject to the following conditions and restrictions:

(i) that the profits from the operation of the facility during a minimum period of ten years be invested in Puerto Rico in ways which will tend to promote substantial expansion of employment;

(ii) that all operations of the facility be conducted in accordance with sound business principles in order to provide maximum funds for investment in Puerto Rico;

(iii) that the Secretary or his authorized representative be given access upon request to all records of transactions pertaining to the operations of the facility, including the purchase of feedstocks for, and the sale and shipment of finished products, unfinished oils, and petrochemicals produced by, the facility;

(iv) that all feedstocks imported under licenses issued pursuant to the allocation shall be derived from crude oil produced in the Western Hemisphere (North America, Central America, South America, and the West Indies), except in those instances in which this requirement is waived by the Secretary;

(v) that no licenses will be issued under the allocation until the facility is ready to go on stream and thereafter only upon a certification of amounts to be directly used by the facility;

(vi) that all imports made under such licenses be directly used by the facility; and

(vii) that imports in storage be taken into account by the Administrator in issuing licenses under the allocation for the succeeding allocation period.

An allocation shall, in addition, be subject to such other conditions and restrictions as the Secretary may deem necessary to prevent impairment of the objectives of Proclamation 3279, as amended, and to assure that any imports so allocated are used for the purposes for which the allocation is made and that the holder of such allocation fulfills commitments made in connection with the making of the allocation. The holder of such an allocation shall comply with all such conditions and restrictions, and noncompliance shall be grounds for the suspension or revocation of the allocation.

(d) No allocation made pursuant to this section may be sold, assigned, or otherwise transferred.

7. Section 16 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Sec. 16. Allocations of finished products - Puerto Rico.

(a) For the allocation period beginning January 1, the Administrator shall allocate to each eligible applicant for an

...ation for Puerto Rico a quantity of imports of finished products ...l to the applicant's average barrels daily of imports of such products for the last half of the calendar year 1958 multiplied by the number of days in the allocation period. Separate allocation shall be made for imports of residual fuel oil to be used as fuel and of imports of finished products other than residual fuel oil to be as fuel.

(b) In the event that the maximum level of imports of residual fuel oil to be used as fuel or of other finished products is increased to meet a demand in Puerto Rico that would not otherwise be met, the Administrator shall increase the individual allocation of the person who has the demand.

(c) No allocation made pursuant to this section may be sold, assigned, or otherwise transferred.

8. Subparagraph (3) of paragraph (c) of Section 21 of Oil Import Regulation 1 (Revision 4) (29 F.R. 3200) is amended to read as follows:

Sec. 21. Appeals.

(c) * * * *

(3) The Board may make effective in a current allocation period a grant or a modification of an allocation of imports when a quantity of such imports has been made available for such purpose by the Secretary.

9. Subparagraph (1) of paragraph (g) of Section 22 of Oil Import Regulation 1 (Revision 4) (28 F.R. 14318) is amended to read as follows:

Section 22. Definitions.

* * * *

(g)(1) liquified gases - hydrocarbon gases such as ethane, propane, propylene, butylene, and butanes (but not methane) which are recovered from natural gas or produced in the refining of petroleum and which, to be maintained in a liquid state at ambient temperatures, must be kept under greater than atmospheric pressures;

* * * * *

Because allocations must be made and licenses issued before January 1, 1966, it is impracticable to give notice of proposed rule making on, or to delay the effective date of, this amendment. Accordingly, this amendment shall become effective immediately.

Secretary of the Interior

DEC 21 1965

J-84, Order of Secretary of the Interior Udall,
December 23, 1965

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
J-84
E 956

FPI M—9-24-75-50M-4417

ALLOCATION TO PHILLIPS PETROLEUM COMPANY
OF IMPORTS OF UNFINISHED OILS INTO
PUERTO RICO

In accordance with Proclamation 3279, as amended, and Oil Import Regulation 1, as revised and amended, an allocation effective January 1, 1966 is hereby made to the Phillips Petroleum Company of up to 50,000 B/D per calendar year of imports into Puerto Rico of unfinished oils for use as feedstocks for a core chemical facility constructed and operated pursuant to the terms of the Agreement, dated May 27, 1965, between Phillips Petroleum Company and the Commonwealth of Puerto Rico. A copy of the Agreement is attached * to this allocation. This allocation shall remain in effect until the expiration of a period of ten years from the start-up and operation of such facility as determined by the Administrator of the Oil Import Administration and shall be subject to the following conditions:

(a) Phillips Petroleum Company and the subsidiary corporation formed pursuant to paragraph (a) of section 1 of the Agreement shall make investments in the amounts, in the manner, and for the purposes specified in the Agreement.

(b) The core chemical facility shall be completed not later than twenty-one months from the date of this allocation.

(c) Phillips Petroleum Company shall assure that all operations related to the core chemical facility are conducted in accordance with sound business principles in order to provide maximum funds for investment in satellite plants within the ten-year period and the Secretary or his authorized representative shall be given access upon request to all records of transactions pertaining to the operations of the core chemical facility, including the purchase of feedstocks for, and the sale and shipment of motor fuel or other finished products, unfinished oils, and petrochemicals produced by, the core chemical facility.

* Available for inspection,
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(d) All feedstocks imported under licenses issued pursuant to this allocation shall be derived from crude oils produced in the Western Hemisphere (North America, Central America, South America, and the West Indies) except in those instances where this requirement is waived by the Secretary.

(e) The provisions of subsection (d) of section 1 and subsection (f) of section 2 of the Agreement shall be observed with respect to sales of products produced by the core chemical facility.

(f) In any calendar year, the core chemical facility shall not produce motor fuels in excess of 49.6 percent of the quantity of feedstocks charged to the facility and in any event not in excess of 24,800 B/D.

(g) During any calendar year, total shipments to Districts I-IV and to District V of unfinished oils or finished products produced by the core chemical facility shall not exceed 49.6 percent of the quantity of feedstocks charged to the facility and in any event total shipments shall not exceed 24,800 B/D per quarter.

(h) No licenses will be issued pursuant to this allocation except in such amounts as may be required for starting and testing the core chemical facility until the facility is ready to go on stream. Thereafter, licenses will be issued only upon a certification by the Phillips Petroleum Company to the Administrator of the Oil Import Administration of the amount of feedstocks that will be used directly by the core chemical facility during a particular calendar year and only in the amount so certified. All imports made under such a license must be used directly by the core chemical facility and any imports in storage at the end of a calendar year shall be taken into account by the Administrator in issuing licenses for the next succeeding allocation period.

(i) For the purposes of this allocation "core chemical facility" means the installation constructed and operated pursuant to the terms of the Agreement dated May 27, 1965 between Phillips Petroleum Company and the Commonwealth of Puerto Rico.

DEC 23 1965

Secretary of the Interior

BEST COPY AVAILABLE